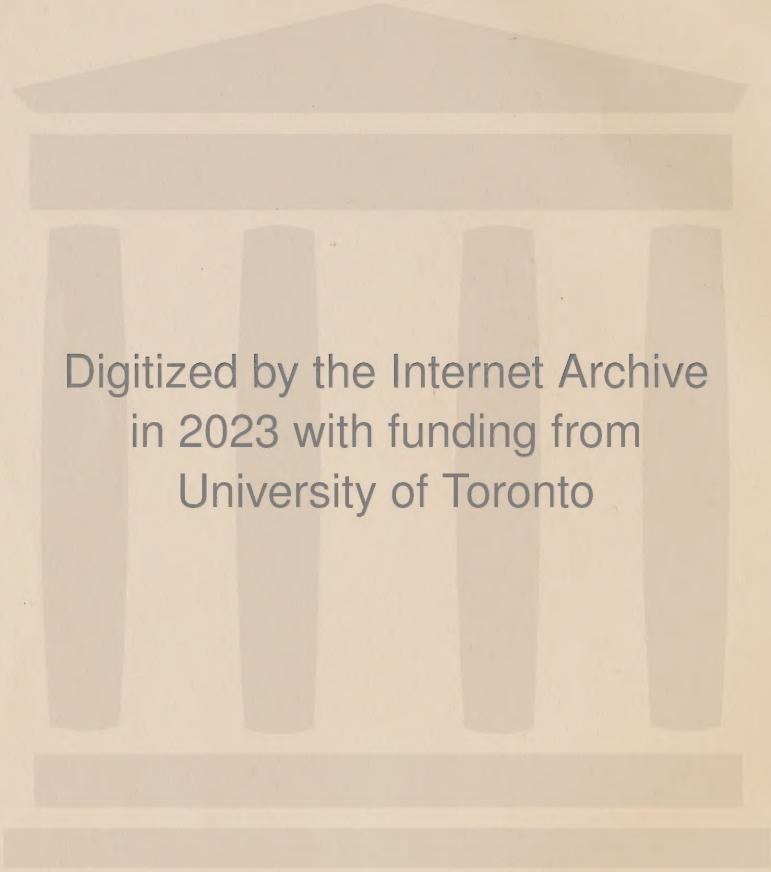

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REPORT

OF THE

ROYAL COMMISSION

ON

LIFE INSURANCE

PRINTED BY ORDER OF PARLIAMENT

OTTAWA
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1907

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CONTENTS

PAGE.

REPORT OF THE ROYAL COMMISSION ON LIFE INSURANCE

His Excellency, the Governor General of Canada, in Council:

The Commissioners appointed under the terms of the Royal Commission, dated the 28th February, 1906, issued under the provisions of chapter 114 of the Revised Statutes of Canada, intituled 'An Act respecting Inquiries concerning Public Matters,' and the Order in Council thereunto annexed:

'1. To inquire into,

(*a*) the general subject of life insurance and life insurance systems in Canada;

(*b*) the operations of the various companies chartered by the Parliament of Canada, or by any province and licensed under the Insurance Act, transacting life insurance in Canada, including expenses of management, invesment of funds and other allied questions.

'2. To make the like inquiry, as far as deemed necessary, into the operations of companies other than those chartered by the Dominion or province, transacting in Canada the business of life insurance.

'3. To inquire into the operation of the laws of the Parliament of Canada relating to and governing the business of life insurance, both as regards Canadian companies and companies other than Canadian, and to consider and report upon any amendments thereto that may be deemed necessary.

'4. That the Commissioners so appointed have power to employ expert assistance, to summon before them witnesses and require them to give evidence on oath orally or in writing or on solemn affirmation, if they are persons entitled to affirm in civil matters, and to produce such documents and things as such Commissioners deem requisite to the full investigation of the matters hereinbefore referred to, and generally to exercise all the powers conferred by the said Act,'

have the honour to submit their report embodying the results of their inquiry and their recommendations in connection with the various matters into which they were directed to inquire, as well as the proceedings had and the evidence taken before them.

Simultaneously with the appointment of your Commissioners, Mr. Henry T. Ross, of Bridgewater, Nova Scotia, was appointed Secretary of the Commission, and Mr. George F. Shepley, K.C., was appointed counsel for the conduct of the inquiry, with whom was associated Mr. W. N. Tilley, as junior counsel. The government of the province of Ontario appointed Mr. I. F. Hellmuth, K.C., and Mr. G. R. Geary, counsel to represent the policy-holders of that province before the Commission, and Mr. Calixte Lebeuf, K.C., was appointed by the government of the province of Quebec, counsel to represent the policy-holders of that province. The Commissioners appointed Mr. Miles M. Dawson, of the city of New York, consulting actuary.

The Commissioners met at the office of the Chairman in the city of Ottawa. on Monday, the 5th March, 1906, for the purpose of organization, and also to consider the best means of satisfactorily discharging the important duties imposed upon them. After due notice had been given, the first public meeting of the Commissioners was held in the city of Ottawa on the 7th March, 1906, when the text of the Commission was read and announcement was made that the Commissioners would proceed with the public inquiry on the 14th day of March, in the city of Ottawa.

The Commissioners have, during the inquiry, made a careful examination of the statutory laws upon the subject of insurance, not only of the Dominion, but also of the different provinces, and have considered the bearing of such laws upon the subjects under inquiry.

The Commissioners have also thought it proper to ascertain the views of persons skilled in the subject, upon many points and from different aspects of the important matters with which the Commission has had to deal.

The Commissioners have examined into the operations of the various companies chartered by the Parliament of Canada or by any province and licensed under the Insurance Act, transacting life insurance business in Canada, of which the following is a complete list, namely:

(1) The Canada Life Assurance Company, incorporated by the Act of the late province of Canada, 12 Vic., cap. 168; 1849

(2) The Sun Life Assurance Company of Canada, incorporated by Act of the late province of Canada, 28 Vic., cap. 43; 1865

(3) The Mutual Life Assurance Company of Canada, incorporated by Act of the Legislature of Ontario, 32 Vic., cap. 17; 1869

(4) The Confederation Life Association, incorporated by Act of Parliament of Canada, 34 Vic., cap. 54; 1871

(5) The Federal Life Assurance Company of Canada, incorporated by Act of the Legislature of Ontario, 38 Vic., cap. 68. Incorporated in 1898 by Act of the Parliament of Canada, 61 Vic., cap. 103; 1874

(6) The London Life Insurance Company, incorporated by Act of the Legislature of Ontario, 37 Vic., cap. 85. Dominion extension of charter, 1884, 47 Vic., cap. 89; 1874

(7) The North American Life Assurance Company, incorporated by Act of the Parliament of Canada, 42 Vic., cap. 73; 1879

(8) The Manufacturers Life Insurance Company, incorporated by Act of the Parliament of Canada, 50 Vic., cap. 104; 1887

(9) The Dominion Life Assurance Company, incorporated by Act of the Parliament of Canada, 52 Vic., cap. 95; 1889

(10) The Excelsior Life Insurance Company, incorporated by letters patent, August 7, 1889, under 'The Ontario Joint Stock Companies' Letters Patent Act.' Dominion license, 23rd June, 1897; 1889

(11) The Home Life Association of Canada, incorporated by Act of the Parliament of Canada, 53 Vic., cap. 46; 1890

(12) The Great West Life Assurance Company, incorporated by Act of the Parliament of Canada, 54 Vic., cap. 115; 1891

(13) The Northern Life Assurance Company of Canada, incorporated by Act of the Parliament of Canada, 57 Vic., cap. 122; 1894

(14) The Imperial Life Assurance Company of Canada, incorporated by Act of the Parliament of Canada, 59 Vic., cap. 50; 1896

(15) The National Life Assurance Company of Canada, incorporated by Act of the Parliament of Canada, 60 Vic., cap. 78; 1897

(16) The Royal Victoria Life Insurance Company, incorporated by Act of Parliament of Canada, 60 Vic., cap. 81; 1897

(17) The Continental Life Insurance Company, incorporated by letters patent, Ontario; Dominion license, 31st December, 1901; 1899

(18) The Crown Life Insurance Company, incorporated by Act of the Parliament of Canada, 63 Vic., cap. 97; 1900

(19) The Central Life Insurance Company, incorporated by letters patent, Ontario, Dominion license issued 20th May, 1905; 1901

(20) The Sovereign Life Assurance Company of Canada, incorporated by Act of the Parliament of Canada, 2 Ed. VII., cap. 102; 1902

(21) The Union Life Assurance Company, incorporated by Act of the Parliament of Canada, 2 Ed. VII., cap. 109; 1902

(22) The Monarch Life Assurance Company, incorporated by Act of the Parliament of Canada, 4 Ed. VII., cap. 96 1904

Fraternal Societies.

(23) The Commercial Travellers' Mutual Benefit Society, incorporated under the provisions of R. S. O., 1887, cap. 167. Dominion license, February, 1889; 1882

(24) The Supreme Court of the Independent Order of Foresters, incorporated by an Act of the Parliament of Canada, 52 Vic., cap. 104; 1889

(25) The Grand Council of the Catholic Mutual Benefit Association of Canada, incorporated in Ontario, 1890; incorporated by an Act of the Parliament of Canada, 55 Vic., cap. 90; 1890

(26) The Canadian Order of the Woodmen of the World, incorporated by Act of the Parliament of Canada, 56 Vic., cap. 92; 1893

(27) The Subsidiary High Court of the Ancient Order of Foresters in the Dominion of Canada, incorporated by an Act of the Parliament of Canada, 61 Vic., cap. 91. 1898

The following table collects information showing the magnitude of the interests involved in the operations of Canadian insurance companies.

Canadian Life Insurance Companies, 1905.

Name.	Year of Incorporation.	Capital Authorized.	Capital Paid up.	No. of Policies in Force.	Amount in Force.	Premiums for Year.	Net Re-insurance Reserve.	Surplus on Policy-holders' Account.
		$ cts.	$ cts.		$ cts.	$ cts.	$ cts.	$ cts.
Canada Life	*1849	1,000,000 00	1,000,000 00	51,304	106,322,909 36	4,104,594 86	28,505,936 00	1,393,403 28
Sun Life	1865	1,000,000 00 Subscribed, 700,000 00	105,000 00	74,441	95,250,512 00	4,301,022 10	19,100,198 92	1,840,698 59
Mutual Life of Canada	1869	Nil.	Nil.	29,788	43,937,288 33	1,547,506 45	8,210,064 24	952,001 12
Confederation Life	1871	1,000,000 00	100,000 00	28,368	42,278,455 00	1,380,053 94	10,140,198 00	800,499 31
Federal Life	1874	1,000,000 00	130,000 00	12,070	16,850,136 11	572,220 46	2,170,425 45	223,749 32
London Life — Ordinary	1874	1,000,000 00 Subscribed,	50,000 00	4,778	**9,113,00 31	132,748 66	1,692,755 00	111,148 26
London Life — Industrial		250,000 00		55,624		251,393 69		
North American Life	†1879	300,000 00	60,000 00	26,142	36,933,106 00	1,354,607 50	6,210,338 00	630,010 43
Manufacturers Life	‡1887	3,000,000 00 Subscribed, 1,500,000 00	300,000 00	30,395	41,710,314 00	1,645,385 58	6,200,932 00	902,758 64
Dominion Life	1889	1,000,000 00 Subscribed, 400,000 00	100,000 00	4,573	6,184,089 00	194,990 01	869,226 58	179,382 81
Excelsior Life	1889	500,000 00	75,000 00	8,124	8,614,522 45	263,083 88	880,393 39	105,551 64
Home Life	1890	1,000,000 00	216,980 00	5,070	6,102,517 00	164,985 44	602,019 73	148,779 69
Great West	1891	1,000,000 00	250,000 00	16,468	23,694,352 00	791,403 00	2,467,842 16	612,213 45
Northern Life	1894	1,000,000 00 Subscribed, 836,800 00	213,650 00	3,898	4,597,488 00	151,440 51	393,663 43	191,923 36
Imperial Life	1896	1,000,000 00	450,000 00	10 985	17,988,123 00	680,798 09	2,064,099 00	650,621 91
National Life	1897	1,000,000 00	199,860 70	3,262	4,823,960 00	157,717 09	395,050 00	163,508 75

*Commenced business, 1847.
‡Manufacturers Proper, 1887; Temperance and General, 1884.
†Guarantee Fund.
**Of this, $4,597,132 Industrial.

9,113,000
4,592,000
4,516,

Canadian Life Insurance Companies, 1905—*Concluded*,

Name.	Year of Incorporation.	Capital Authorized.	Capital Paid up.	No. of Policies in Force.	Amount in Force.	Premiums for Year.	Net Re-insurance Reserve.	Surplus on Policyholders' Account.
		$ cts.	$ cts.		$ cts.	$ cts.	$ cts.	$ cts.
Royal Victoria	1897	1,000,000 00	200,000 00	3,445	4,403,837 00	138,591 93	440,241 43	44,732 09
Continental Life	1899	1,500,000 00	180,255 94	3,847	4,401,935 00	143,958 30	347,788 00	117,222 17
Crown Life	Letters Patent, Ont. 1900	Subscribed, 1,000,000 00 1,000,000 00 Subscribed, 609,600 00	129,465 29	2,199	3,460,744 00	135,932 59	232,044 00	19,758 32
Central Life	1901	1,000,000 00	75,100 00	579	576,450 00	18,721 65	31,303 06	38,394 83
Sovereign Life	Letters Patent, Ont. 1902	Subscribed, 500,000 00 1,000,000 00	225,595 68	938	1,878,903 00	80,632 47	136,068 00	222,878 51
Union Life	1902	1,000,000 00	100,000 00	*42,779	7,095,526 00	167,241 01	108,907 00	112,041 10
Monarch Life	†1904							
Commercial Travellers	1882	Nil.	Nil.	1,878	1,876,000 00	**30,190 88		
I. O. F	1889	Nil.	Nil.	233,293	248,801,000 00	*a*3,003,682 24		
C. M. B. A	1890	Nil.	Nil.	19,750	26,393,500 00	‡336,601 05		
Canadian Order of The Woodmen of the World	1893	Nil.	Nil.	10,438	11,499,000 00	**107,091 76		
Ancient Order of Foresters	1898	Nil.	Nil.	1,163	1,048,882 00	23,464 00 (Life Ins.)	72,670 54	

†Commenced business, 1906.
*Including Industrial.

**Excludes Annual Dues.
‡Excludes Membership Dues.
*a*Excludes extension of the Order Tax.

With regard to the British companies doing business in Canada, the Commissioners have thought it proper to obtain and have obtained valuable opinions from British actuaries and insurance managers upon subjects with which the Commission has had to deal.

The Commission has also availed itself of the proceedings and evidence taken during 1906 before a Committee of the House of Lords upon certain aspects of the subject of insurance, and has also had the advantage of examining the report of that Committee. These proceedings are among the papers accompanying this report.

With regard to United States companies doing business in Canada, the Commission has treated as part of the material before it and available for its purposes the evidence taken before and the report made in February, 1906, by the Joint Committee of the Senate and Assembly of the State of New York, appointed to investigate the affairs of life insurance companies.

The Commission has also had an opportunity of examining the report of a Commission appointed to recodify the insurance laws of the Commonwealth of Massachusetts, made to the Governor of the Commonwealth in June, 1906; the report of a Committee on Uniform Legislation appointed at a Conference of Governors, Attorneys-General and Insurance Commissioners held at Chicago on 1-2 February, 1906, commonly known as 'the Committee of Fifteen'; the report of a sub-committee of the Committee of Fifteen, appointed to consider standard forms of and standard provisions for life insurance policies; the report of another Committee appointed at the same Conference to consider the subject of Annual Accounting and Distribution of Surplus; the report of a Committee appointed by the Governor of the State of Indiana, to investigate, among other subjects, the Insurance Department of that State and the condition of Legal Reserve Companies doing business in that State, and an advance abstract of a report made by a Legislative Insurance Investigating Committee of the State of Wisconsin, bearing date the 12th December, 1906.

In some cases of United States companies this information has been supplemented by specific inquiry, as will more fully appear from this report, but the Commission has deemed it inexpedient to prolong this inquiry by examining independently into the matters of fact with which the reports of the committees mentioned above have dealt.

CANADA LIFE ASSURANCE COMPANY.

This is the oldest of the Canadian life insurance companies, and had its origin in a meeting held in Hamilton on the 21st August, 1847, at which certain conclusions were reached by those present, looking towards the foundation of a life insurance company. This meeting was followed by a deed of settlement, dated 1st January, 1848, which provided for the constitution and government of the company, conformably to the conclusions arrived at by the meeting.

The capital stock was fixed by the deed at £50,000, divided into 500 shares of £100 each. The deed provided for the election of a Board of Directors, and expressly nominated the first board, consisting of 20 persons. The deed further contained suitable provisions for the transaction of the proposed company's business, and for the government of the company by means of by-laws and regulations, for the making of which the deed made ample provision. The provisions of the deed with respect to profits were as follows:—

> 'That for the first two years no dividend of interest or profits shall be made, but the same, after defraying the expenses of management, shall be retained to answer contingencies, and that thereafter it shall be in the power of the directors to appoint and declare dividends to be made among the shareholders in proportion to their respective shares, provided always that it shall be in the power of

the directors for the time being to lay aside and accumulate such parts of the profits as they may deem advisable, and provided further that it shall be in the power of the directors, from time to time, to allot and divide to and among the assurers upon the participation scale, at the rate of 75 per cent of the profits to arise and be realized from this branch of the company's business in proportion to the amounts of premiums paid up by him, her or them.'

The deed conferred authority upon the directors to apply for an Act of Parliament, or a Royal Charter, incorporating the company, and 'to alter, modify or amend the whole of the terms of the constitution of the company so as to meet the views of Parliament.

In 1849, on April 25, by an Act of the late province of Canada (12 Vic., cap. 168), the Canada Life Assurance Company was incorporated. The capitalization provided for in the Act followed the terms of the deed, and the insurance powers conferred were as follows :—

'To make and effect contracts of assurance with any person or persons, bodies politic or corporate, upon life or lives, or in any way dependent upon life or lives, and to grant or sell annuities, either for lives or otherwise, and on survivorships, and to purchase annuities, to grant endowments for children and other persons, and to receive investments of money for accumulation, to purchase contingent rights, whether of reversion, remainder, annuities, life policies or otherwise, and generally to enter into any transaction depending upon the contingency of life, and all other transactions usually entered into by life assurance companies, including re-assurance.'

In this respect also, the Act followed the provisions of the deed.

With respect to profits, the Act conferred upon the directors, in the management clause, power to

'Allot and divide among the assurers upon the participation scale, so much of the profits realized from that branch, and at such times as they may think fit.'

And also power to

'Declare and cause to be paid or distributed to the respective stockholders any dividend or dividends of profits in proportion to the shares held by them, at such times and seasons as they shall think proper, or add the same to the paid-up portion of the capital stock ;

thus enlarging the power conferred upon the directors in respect of profits by the Deed of Settlement.

Power was also conferred upon the company to increase its capital stock to a sum not exceeding £250,000, or $1,000,000.

The powers of the company so incorporated with regard to investments, so far as they are necessary to be considered, were conferred in the following words :—

'But it shall be lawful, nevertheless, for the said corporation to purchase and hold, for the purpose of investing therein, any part of their funds or money, any of the public securities of this province, the stocks of any of the banks or other chartered companies, and the bonds and debentures of any of the incorporated cities or towns or municipal districts, and also to sell and transfer the same, and also to make loans upon or purchase bonds, mortgages and other securities, and the same to call in, sell and reloan as occasion may render expedient.'

By the Act 42 Vic., cap. 72, certain amendments were made in the powers of the company with regard to the division of profits. The Act recites a petition by the company, representing that—

'The directors have heretofore allotted and divided among the persons assured upon the participation scale 75 per cent of all the profits realized from the entire business of the company, and that in view of the increasing business

it is or may be desirable to vary the relative proportions in which such profits should be allotted and divided as between the shareholders and the persons assured.'

The Act goes on to provide that the directors, instead of continuing to allot the profits as mentioned in the recital, are authorized:—

'In their discretion to make such new allotment and division of such profits among the persons assured on the participation scale and the shareholders of the company, at such times and in such manner as they may think fit, and also from time to time to alter or vary the relative proportions in which such profits shall be allotted and divided as between such assured and the shareholders; provided always that the proportion of such profits allotted to such assured shall not be less than 90 per cent thereof and the proportion to the shareholders shall not exceed 10 per cent thereof.'

By the same Act power was given to the directors to establish agencies or branches within the Dominion of Canada or elsewhere and it was provided that in addition to the powers in that behalf contained in the Act of Incorporation, the directors might invest the funds in any of the public securities of the Dominion of Canada, or of any of the provinces thereof, or of Great Britain and Ireland, or of any foreign state or country, no greater amount being invested in the securities of Great Britain and Ireland or of any foreign state or country than might be required for the purpose of complying with the requirements of the country or foreign state for carrying on the company's business through its agencies established or to be established.

By the Act 56 Vic., cap. 99, it was provided, in order to remove doubts as to the directors' power of investing moneys in Canada,

'That they have had and shall have power to invest the funds of the company in the bonds or debentures of any municipalities in Canada and in mortgages on real estate in any of the provinces or territories of Canada, and they may invest such funds in the bonds or debentures of any of the states of the United States or of any municipalities in the United Kingdom or in the United States or in mortgages on real estate therein; but the amount so invested in the United Kingdom shall not at any time exceed the reserve upon all outstanding policies in force in the United Kingdom, and the amount so invested in the United States shall not at any time exceed the reserve upon all outstanding policies in force in the United States.'

At the date of incorporation £2 or $8 per share, amounting in all to $4,000, had been paid on account of the £50,000 capitalization then presently existing, and no further payment was made in cash by the shareholders from that date till the year 1856, when the authority to increase the capital to £250,000 was exercised by the company, and the sum of $24,780.50 was called up in cash. In the meantime, however, between the years 1849 and 1856, inclusive, $35,590.50 had been applied by way of bonus or dividend in payment on the capital stock. In the succeeding years, from 1857 to 1865 inclusive, the cash payments by shareholders in respect of their stock were, by yearly decreasing amounts, raised to a total of $63,573.50, while bonuses or dividends out of profits were further applied so as to make the total payments from this source $61,426.50, making in all $125,000 paid on account of the total capital of $1,000,000.

In the year 1900, after the passing of the amendments made to the Insurance Act in the year 1899, and under certain circumstances which will be discussed more fully in a later part of the report, the remainder of the capital stock was called up; and between the years 1900 and 1903, $875,000 was accordingly paid by the shareholders which, with the $125,000 paid up in the year 1865, made the full $1,000,000 of authorized capital.

Down to the year 1865, inclusive, the shareholders received dividends in addition to the amount ($61,426.50) applied in payment of their stock, as follows:—

Year.	Per Cent.	Capital.
1856	11	$ 33,350
1857	11½	64,378
1858	10	83,733
1859	10	98,550
1860	8	110,120
1861	6	119,440
1862	5	122,930
1863	5	124,090
1864	5	124,520
1865	5	124,902

And between the years 1866 to 1890 inclusive, they were paid dividends as follows:—

Year.	Per cent.	Capital.
1866 to 1869	5	$125,000.
1870	8	" with an extra of $6 per share.
1871 to 1874	8	"
1875	10	" with an extra of $17 per share.
1876 to 1879	15	"
1880	15	" with an extra of $17.50 per share.
1881 to 1884	15	"
1885	17½	" with an extra of $25 per share.
1886 to 1889	20	"
1890	20	" with an extra of $25 per share.

From 1891 down to 1899, inclusive, dividends were paid to shareholders amounting to 20 per cent per annum upon the paid-up capital, besides a special bonus of $25 per share, or in all $62.500, paid in 1895.

Since the capital was increased to $1,000,000 regular dividends at the rate of 8 per cent ($80,000) per annum have been distributed to the shareholders.

In the early history of the company rates of interest were high, and expenses were upon a moderate scale to which the methods of insurance of recent years present no parallel. The first reserves were computed upon the basis of 6 per cent, and the rates of commission to agents prevailing in the earlier history of the company were as low as 10 per cent on initial premiums, and 7½ per cent on renewals. These were the rates of commissions paid to district agents in 1862. Between that date and 1887 there had been a gradual increase in the case of initial premiums from 10 per cent to about 20 per cent, and in 1887, the rate was increased to 35 per cent. In 1900 it was increased to an average of probably 50 per cent, commissions in respect of some classes of insurance being then fixed as high as 55 and 60 per cent.

The Hon. George A. Cox, the president of the company, formed his first connection with it in the year 1862, becoming in that year the local agent of the company at Peterborough. The limits of his agency were enlarged from time to time until 1887, when the seat of the agency, then known as the Eastern Ontario Branch, was removed from Peterborough to Toronto, and the rates of commission re-adjusted.

In 1892, Mr. Cox went upon the Board of Directors under circumstances which call for some observations. He had before that date become largely interested in many important financial institutions. He was president of the Canadian Bank of Commerce, the founder and almost sole owner of the Central Canada Loan and Savings Company, connected with and in control of the Toronto Savings Company, and was closely identified with other large and important business and financial interests. He had been earnestly devoted to the business of the Canada Life Assurance Company, the success of which was, no doubt, in a large degree due to his zeal and industry in the territory covered by his agency. The stock of the company strongly

appealed to him as an investment, and he had, from time to time, increased his early small holdings, till, in the year 1891, the year preceding his going upon the board, he either held or controlled 489 shares of the capital stock.

Among some of the members of the board there appears to have been a feeling of alarm at the growing power of Mr. Cox. There are indicated upon the minutes two grounds upon which this alarm was based; one the danger of undue influence or control falling into any one hand; the other, the danger to the independent management of the company involved in the acquisition of a preponderance of its stock by one of its servants or employees.

On the other hand, Mr. Cox seems to have been firmly pressing his claim to a seat on the board. He thought he had been unfairly treated by the board upon the occasion of removing the Eastern Ontario Agency from Peterboro' to Toronto after the completion of the company's new Toronto building. He removed the office of the Central Canada Loan and Savings Company at the same time, and had expected office accommodation for that company in the new building, and attributed his being disappointed in that respect to certain members of the board. He says he then determined that he would himself go upon the board, and that they should go off.

The result was that negotiations were entered upon by the board and Mr. Cox, which finally resulted in his election in 1892, upon the terms of his vesting 400 shares of the stock held by him in three trustees, who were to have the sole control and management of the same, free from any interference by Mr. Cox, so long as he held the position of director, he, however, receiving the dividends upon them.

The instrument vesting the 400 shares in trustees provided that, upon Mr. Cox ceasing to be a director, the shares should be retransferred to him.

Upon this arrangement Mr. Cox was elected to the board at the annual meeting in March, 1892.

In January, 1897, Mr. Cox desired a retransfer of the shares held in trust, feeling, as he said in a letter written during the discussion, that he could not any longer properly occupy a seat at the board with his stock held in pledge as a guarantee of his good behaviour. He was, as he quite understood and intimated in the correspondence, entirely master of the situation at this time, as, by resigning his seat at the board, he could compel a retransfer of the shares, and his ownership and control of stock at that time would, no doubt, have re-insured his re-election. The board yielded to the request of Mr. Cox, and accordingly his shares were released from the trust. At the same time, owing to objections made by Mr. Cox, two gentlemen, who lived in Montreal, retired from the board, and their places were taken by Mr. Alexander Bruce and Mr. B. E. Walker.

In January, 1900, Mr. Cox was elected president, Mr. Ramsay retiring upon a pension of $12,000 per annum, provision for which was made by the purchase of an annuity, the purchase money of which entered into the general expenditure account of that year. The retirement of Mr. Ramsay had been provided for as early as 1897, in an agreement under which he was to continue as general manager so long as he should be able to efficiently discharge the duties of that position, and until the board should express a desire for his retirement; and upon his retirement be paid an allowance of $12,000 a year during his natural life.

When Mr. Cox became president and general manager, his son, Mr. E. W. Cox, who, up to that time, had been in partnership with him in the office of agent for the Eastern Ontario Branch, became assistant general manager; and another son, Mr. H. C. Cox, succeeded the firm as agent for the branch. Hon. Mr. Cox paid his son, E. W. Cox, $40,000 for his half interest in the business, and handed over the whole agency as a gift to the other son, H. C. Cox. Mr. Cox's salary, as president and general manager, for 1900 and 1901 was $20,000 per annum. Mr. E. W. Cox's salary as assistant general manager was at first $6,000, but was subsequently raised to $7,500, to which Mr. Cox added $5,000 from his own salary of $20,000, making his son's salary

$12,500 and his own $15,000. In 1903 and 1904 Mr. E. W. Cox received a salary of $15,000, and in 1905 a salary of $20,000, Hon. Mr. Cox receiving $15,000. Since the year 1900, when Mr. H. C. Cox took over the agency for the Eastern Ontario branch, he has been in receipt of net profits in respect of the agency ranging from $12,850.90 in 1901 (the minimum), to $19,895.25 (the maximum), in 1904.

Mr. Cox had, in 1896, added to his Eastern Ontario Agency the Michigan branch, under an arrangement by which he purchased the agency from the person who, prior to that, had been in charge of the branch. He applied the profit of the branch from the year 1890 to 1895 in wiping out the charge upon the business created by the payment of the purchase money; and from 1896 to 1899 the branch continued to show a profit which Mr. Cox was receiving. In 1900, when he became president, the arrangement with Mr. H. C. Cox covered this territory also, and the profits of the Michigan branch, in the six years that have elapsed since then, aggregate about $11,000.

With regard to the Ottawa agency, the statement made is that the Ottawa agent, Mr. Haycock, had transferred to a person from whom he had borrowed a considerable sum of money, a one-half interest in the earnings of the agency. The Ottawa agency was a sub-agency of the Eastern Ontario branch, and Mr. Cox, while he was manager of the Eastern Ontario branch, arranged that this loan should be taken up. For this purpose a company was formed, called R. H. Haycock & Sons, Ltd., with a capital of $40,000, of which $20,000 was issued to the Eastern Ontario branch and was pledged with the Canadian Bank of Commerce for a loan of $15,000, guaranteed by Mr. Cox. The amount of this loan was used to discharge the agent's indebtedness and for other purposes connected with the agency, and one-half of the profits of the Ottawa branch has since been paid to the agent, and the other half has been applied in reducing the loan made by the bank, until at the date upon which the inquiry took place the same stood at $9,000.

There seems to be no written record of the transaction, and in form at least, half the capital stock in the Ottawa agency is, subject to pledge, owned by the Eastern Ontario branch. Mr. Cox, however, states that on payment of the balance of $9,000 and the release of the stock from the pledge to the bank, the agent will be entitled to all the stock of the company so as to reinstate him as sole owner of the business. It seems unfortunate that so important a transaction should rest upon nothing more tangible than the recollections of the parties.

The Hon. Mr. Cox now owns or controls 57 per cent of the capital stock of the Canada Life Assurance Company.

Before discussing the subject of the strengthening of reserves by the company in anticipation of the requirements of the legislation of 1899, reference should be made to what are known as the minimum policies issued by this company, the holders of which were, or appeared to be, more noticeably affected by the method adopted in strengthening the reserves, than the holders of any other class of policy, inasmuch as the result in the case of those who had taken their profits in cash, was to reduce the face of the policy by creating a lien upon it. The history of the minimum policy was very fully given by Mr. Cox. It was adopted to give the policyholders an immediate participation in anticipated profits by way of reduced premium rates. The management, having regard to the profits earned in previous years, assumed that they would never in any year fall below 1¼ per cent by way of bonus addition to the sum assured, and made an equivalent reduction in the premium. The company proposed to recoup itself in respect of the premium reduction by retaining the profits to the extent of the 1¼ per cent. If the profits amounted to exactly 1¼ per cent in any year, the company retained all; the holder of the minimum policy received none, having already received an equivalent advantage in reduction of premium. If the profits exceeded 1¼ per cent the minimum policyholder was entitled to the benefits of the excess; if they fell below 1¼ per cent the deficiency was made a lien upon his policy. It appears that for some years after the minimum policy was adopted the profits always exceeded the 1¼ per cent. When, however, the large drain upon the divisible profits was made for the pur-

pose of strengthening the reserves, the result was the creation of two successive liens upon such minimum policies as had taken the excess profits during the intermediate period in cash instead of by way of bonus addition. One of these was for the difference between the 1¼ per cent and the declared bonus addition of ¾ per cent; the other for the difference between the 1¼ per cent and the declared bonus addition of 1 per cent. In the case of those who had taken the excess profits during the intermediate period by way of bonus addition, the creation of these liens did not impair the face policy value, because they were not large enough to wipe out the bonus additions.

Before the legislation of 1899, the government standard for reserves was the Hm. table and 4½ per cent. The company had valued its policies upon this basis in 1880. It is in proof that afterwards there was a considerable reduction in the current rate of interest obtainable upon investments. In 1894 the reserves were placed upon the basis of the American Experience Table and 4 per cent, the result being to increase the reserves by a sum of $898,000 or thereabouts, provision for which was made by setting apart out of profits approximately $500,000. In 1898 a sum of $225,000, and in 1899 a sum of $275,000 were set apart out of profits, and treated as a reserve liability in anticipation of what was deemed to be an imminent necessity for further strengthening the reserves, and in 1899, when the legislation was passed, the liabilities contained a net insurance reserve calculated upon the American Experience Table with 4 per cent, and these two special appropriations, amounting to $500,000. The Government standard existing prior to the legislation of 1899 had, therefore, been considerably exceeded in the company's valuation. In 1900 the company appears to have valued its policies upon the Actuaries' Table with 4 per cent interest, and in 1901 the ultimate requirement of the legislation of 1899 was anticipated by computing the reserves in respect of all business written prior to 1900 upon the Hm. table with 3½ per cent. In the meantime and in respect of new business, the company had, since January 1, 1900, been computing the reserves upon the Hm. table with 3 per cent, thus adopting a basis of valuation producing in respect of the new business larger reserves than the ultimate Government requirement.

The result of these alterations in the basis of reserve was to absorb in 1894, approximately, $500,000; in 1899, approximately, $1,070,000; and in 1901, approximately, $995,000, which would otherwise have been available for distribution of profits. The whole of these sums would, of course, have been taken out of profits ultimately had the company taken the full time given by the statute for valuing upon the statutory basis. The contrast drawn is, therefore, between an immediate strengthening of reserves up to the legislative requirement, and a gradual strengthening, taking advantage of the full statutory period.

It will be remembered that in October, 1900, the balance of the capital stock, $875,000, was called up. The capital, however, has not been treated as impaired in the process of strengthening the reserves, but the whole of the moneys used for that purpose have been taken out of profits.

In 1899 (62-63 Vic., cap. 99), the company applied for and obtained an Act which, among other things, gave the policyholders of the company certain voting rights in respect of the election of directors. They were not by the Act given any other voice in the management of the company's affairs, or at the meetings for which the statute made provision. They were entitled separately to elect six of their number, holding certain policy qualifications, as directors. The shareholders were give a separate right to elect nine directors. Thirty days' notice in writing was required by the Act to be given by some policyholder qualified to vote, of the name of any person, other than a retiring director, intended to be proposed for election. Proxies were permitted, but every policyholder's proxy was required to be in the hands of the secretary at least twenty days before the meeting at which it was to be acted upon. In case of a vacancy, the board filled the vacancy from the class of qualified shareholders or qualified policyholders, as the case might be. The directors selected by the policyholders were not permitted to have any voice in the question of the proportion of profits to be allotted to the shareholders. This Act was passed on the 10th July, 1899. The

records of the company disclose that in the year 1900, 1905 policyholders were represented out of a possible 6,500. In 1901, 293 out of a possible 7,230. In 1902, 266 out of a possible 7,230. In 1903, 253. In 1904, 294. In 1905, 403 out of a possible 8,632. In 1906, 768 out of a possible 8,800. The policyholders' proxies appear to have been all or nearly all made out to the president and the vice-president.

In the year 1900, when the balance of the stock was called up, the company was about to make very considerable extensions of its business in other countries; and the evidence of Mr. Cox, the president, would seem to indicate that in his view and that of the Board of Directors, the calling up of the balance of the capital stock was due to these proposed extensions, although he also says that it was desirable to have the additional capital to answer any possible shrinkage in assets under investment, by reason of a drop in the rate of interest or otherwise.

In another part of his testimony he speaks of the policy of the company as being a 'forward' policy, involving meeting foreign companies in their own territory, rather than confining the competition to the Canadian field.

With the standing and reputation which the company undoubtedly possessed in 1900 it is difficult to arrive at any sound economic reason, from the standpoint of policyholders, for calling up the $875,000 capital. Mr. Cox says: 'It would improve the standing of the company in the United Kingdom and the United States,' but no real necessity for the step is indicated. He points out that the bringing in of this additional capital has been followed by a reduction in the rate of dividend from 30 per cent to 8 per cent. His language is as follows (pp. 988-989):—

> 'I will ask you to bear in mind that the $1,000,000 paid in by the shareholders earns at the average rate of the company's invested funds about $47,000, leaving only about $33,000 per year from the profits of the company to make up the 8 per cent which they received as dividends. It took practically the same amount to pay 30 per cent on the $125,000 prior to 1900.'

The 30 per cent is made up of the 20 per cent dividends and the bonus of $25 per share paid in 1895.

It is manifest that there is nothing to limit the management for the future to 8 per cent dividends. Up to 10 per cent of the total 'profits' the statute permits the shareholders to take, and the possible dividends are bounded by this percentage only.

But it is equally manifest that if the inherent earning power of the additional capital is only 4·67 per cent, its engagement in the concerns of the Canada Life without any real need is a simple method of raising that earning power to 8 per cent, the difference, under whatever name, being unnecessarily taken away from the policyholders whose accumulations have earned it.

There seems to be no reason to doubt that the competition engendered by the invasion of the Canadian field on the part of foreign companies, together with the like competition engendered by the invasion of the foreign field by this company, with others, has done much to enhance the expenses of Canadian insurance companies, especially in respect of the initial cost. The gain and loss exhibit prepared by the company shows this in very precise terms. In the year 1905 the cost of first year insurance exceeded all provisions made for that cost by approximately $450,000.

The observations of your commissioners upon the general subject of excessive cost and excessive ratio of expense to income will have their appropriate place in the general observations which are to be offered after a discussion of the peculiar features of each particular company. It would appear that in the case of this company a very marked increase in expenses and in the expense ratio coincided with the acquisition by Mr. Cox of the controlling interest in the capital stock of the company. The significance of this circumstance is, however, lessened by the fact that the experience of other similar Canadian companies has not, to any marked extent, differed from the experience of this company.

It is first to be observed that the company has always taken the widest possible view of the powers conferred by the original Act of incorporation (12 Vic., cap. 168).

In that statute occur the words 'The stocks of any of the banks or other chartered companies,' and the view taken of its powers by the board of directors from time to time has been that this language is sufficiently wide to enable investments to be made in the stock of any company having a Dominion or provincial charter, without regard to the nature of its undertaking or the field of its operations. This difference between the charter of this company and the General Insurance Act must be borne in mind when the propriety of certain investments made by the company is considered. It is also to be observed that the powers of investment conferred by the General Act have not been substituted for special pre-existing powers of investment, and there seems to be no room for doubting the soundness of the contention of this and other companies that the powers set out in the general Act are cumulative and do not impair any such special powers. The language of the General Act is as follows :—

> 'The said Act is hereby amended by adding thereto the following section: provided that nothing therein contained shall be construed to diminish, impair, or in any way take away or limit any power of lending or investing now possessed by any company therein mentioned or referred to.'

Correspondence, which was put in evidence, between the company and the Department of Insurance, together with the opinion of the Department of Justice with regard to the investment powers of the company, has been made a part of the record.

The absolute control, real or potential, residing in the president and general manager, and in which his stockholding and offices secure him, have to a marked extent influenced the investments of the company, which have been made to serve not only the interests of the Canada Life Assurance Company, but also his own interests and the interests of other institutions in which he was largely concerned. He says he has always made the interests of the Canada Life Assurance Company his first and chief concern, but many of the investments made by or on behalf of that company have been made to serve other interests as well. The dual position and conflicting interests of Mr. Cox in many of these transactions have been most clearly defined. The Central Canada Loan and Savings Company, in which there is a large, independent shareholding, is under Mr. Cox's control to such an extent that to use his own language, we are to treat it as being himself. This company has been very largely interested in the promotion of enterprises of a more or less speculative nature, the success of which largely depends upon facilities for carrying and marketing the stocks and bonds of those enterprises. Mr. Cox has, from time to time, as he frankly stated, brought about the investment in securities of this description, of the funds of the Canada Life Assurance Company, in aid of transactions in these securities on his own part and on the part of other institutions which he controls. He has not hesitated from time to time, as occasion seemed to arise, to lend the moneys of the Canada Life to others to assist them in carrying similar securities. Upon one occasion, referred to hereafter, when he was himself, both directly and in respect of some of his business associates and some one or more of the institutions in which he had a controlling interest, largely concerned in maintaining the market price of a security of this description, he made use of the funds of the company to purchase the security for the express purpose of strengthening or upholding its market price.

It will be useful to examine some of the transactions of the company, having regard to the common interest of Mr. Cox in the various transactions and his relation to the various persons and corporations dealt with by the company. It may be premised that the Provident Investment Company, in whose name some of the transactions were carried out, is owned exclusively by Mr. Cox and not merely controlled by him, and that the Dominion Securities Corporation, incorporated in March, 1901, under the General Companies Act of the Province of Ontario, with certain powers of buying and selling and carrying on a brokerage business in stocks, bonds and other securities, was exclusively owned by the Central Canada Loan and Savings Company. After its formation many investments of a class which had hitherto been made directly by the Canada Life Assurance Company was made by and through the Domin-

ion Securities Corporation as intermediary to the profit of the Dominion Securities Corporation. The transactions so carried through were numerous and large, and were carried on down to the date of the investigation.

The Commission made an exhaustive inquiry, as will appear in the evidence and exhibits, into the books and affairs of all the other companies in which Mr. Cox was interested, in so far as it seemed likely that such inquiry was relevant. In the result it is believed that all dealings bearing upon the inquiry were disclosed and fully examined into.

Commencing with February, 1902, and ending with June, 1903, the Canada Life Assurance Company loaned approximately $1,150,000 to various borrowers upon the security of shares of Dominion Coal stock. Of these loans, three, amounting to about $26,500 in all, were made to employees of the Canada Life Assurance Company, who appear to have been carrying the stock on margin, and one of $500,000 to the Dominion Securities Corporation.

Between April, 1902, and April, 1903, the Canada Life Company purchased the stock of the Dominion Coal Company to the extent of $447,500, and between April and July, 1903, reduced its holding by sales to $300,000.

In January, 1904, more of this stock ($10,000), was purchased by the company.

In 1902, the Dominion Coal Company, which had a bond debt of $2,704,500, a preferred stock of $3,000,000 and a common stock of $15,000,000, leased all its property and undertaking to the Dominion Iron and Steel Company at a fixed rental of $1,600,000, which rental was fixed with a view to the payment of the interest upon the bond debt, which was 6 per cent, and a dividend of 8 per cent upon both the deferred and common stock. There seems to be no doubt that before the lease was actually executed those who were interested in the Dominion Coal Company or likely to be interested in it, had some idea of what was contemplated; and the result was that the stock rose from 54 in January of 1902, to 123 in March of the same year; then in April it rose to 148; in may it fell to 141; in June it fell to 141½; in July, 137½; in August, 144; in September, 147; in October, 135; in November, 131; in December, 132½; in January, 1903, 132½; in February, 130; in March, 127¾; in April, 112; in May 110¾; in June, 99¼.

The Dominion Securities Corporation, acting for Mr. Cox, in February, March and April, 1902, purchased and sold for him 6,000 shares of this stock.

It has also been disclosed that a syndicate was formed in May, 1902, for the purpose of making profit in buying and selling Dominion Coal Company stock. The parties to the syndicate and their interests were as follows:—

	Per cent.
A. E. Ames & Co.	15
Canadian Bank of Commerce	10
General Canadian Loan and Savings Co.	15
Home and Foreign Securities Co.	7½
Pellatt & Pellatt	15
F. Nicholls	10
B. E. Walker	5
J. H. Plummer	5
Atlas Loan Co.	7½
McCuaig Bros. & Co.	10

The total purchases of the syndicate during its operations were $2,609,183.72, and its total sales were $1,127,846.11, having a balance of $1,481,337.61, representing the cost to the syndicate of 11,400 shares, which were distributed on 30th April, 1903, when the syndicate was dissolved.

Mr. Cox was himself interested in Dominion Coal stock, having had a holding as far back as 1898.

The Dominion Securities Corporation had borrowed $500,000 at 5 per cent from the Canada Life Assurance Company, secured by the guarantee of the Central Canada

Loan and Savings Company, being one of the loans by the Canada Life on the Dominion Coal stock mentioned above, the moneys for that purpose having been largely borrowed by the Canada Life Assurance Company at 5 per cent. In connection with this loan the Canada Life Assurance Company secured from the Dominion Securities Corporation an option to purchase a thousand shares of the stock at 70, which was subsequently exercised, the transaction being part of the purchases totalling $447,500 above referred to.

In April, 1903, the Canada Life Assurance Company's board authorized the purchase of 1,000 shares of Dominion Coal Company stock, together with 1,000 shares of another stock (Twin City), and in connection with that purchase Mr. Cox states that the Bank of Commerce, of which he was the president, was acting in concert with the Canada Life Assurance Company, purchasing a like quantity of both stocks. He also states that the object of the purchase was to strengthen the market, as the market for these securities was then declining, and to protect his own holdings and the market generally. This is manifest, because, so far as the Canada Life Assurance Company was concerned, its holdings although the market was falling, might then have been disposed of at a profit.

Investments were also made by the Canada Life Assurance Company in the bonds of the Dominion Rolling Stock Company and the Cape Breton Real Estate Company, subsidiary companies of the Dominion Coal Company, of $275,000 each. An investment was also made in the bonds of the Dominion Iron and Steel Company to the extent of $100,000.

The transactions by way of purchase with the Central Canada Loan and Savings Company, the other self of Mr. Cox, and with the Dominion Securities Corporation, the creature of the Central Canada Loan and Savings Company, were numerous and profitable to those institutions. Following is a summary of them:—

1900—Ottawa Electric Bonds	$ 269,000
Toronto Railway Bonds	200,000
Canadian Northern Bonds	200,000
Canadian Northern Land Grant Bonds	300,000
1901—Toronto Railway Bonds	50,000
Toronto Electric Light Bonds	350,000
The Kingston and Pembroke Ry. Bonds	300,000
1902—Toronto Railway Bonds	25,000
Bay of Quinte Bonds	150,000
Dominion Rolling Stock Co.	300,000
1903—Imperial Rolling Stock Co. (Trust Account with Central Canada Loan and Savings Co. and Canadian Bank of Commerce)	1,333,000
Montreal Light, Heat and Power Bonds	250,000
Wyandotte & Detroit Railway Bonds	50,000
Père Marquette Railway Bonds	250,000
Vancouver Power Bonds	250,000
Lake Erie and Detroit Railway Bonds	25,000
1904—Minneapolis Street Railway Bonds	25,000
Union Electric, St. Louis	200,000
Hamilton Cataract Power	100,000
Cape Breton Real Estate Bonds	180,000
Dominion Rolling Stock	80,000
Sao Paulo	200,000
Crow's Nest Electric L. and P. Bonds	125,000
Toronto and York Radial Bonds	100,000
Morrissey, Michel and Fernie Bonds	100,000

1905—Winnipeg Electric Railway	$ 25,000
Niagara, St. Catharines and Toronto Bonds	50,000
Grand Trunk Pacific Bonds	125,000
New Brunswick Coal and Railway Bonds	50,000
Lindsay, Bobcaygeon and Pontypool Bonds	500,000
La Clede Gas Co., St. Louis	100,000
Dominion Coal Bonds	71,000
Shawinigan Water and Power Bonds	250,000
Portland Electric Bonds	100,000
Imperial Rolling Stock Bonds	250,000

These transactions indicate to your commissioners that the funds of the company were employed with the utmost freedom in transactions with institutions in which Mr. Cox was largely interested. In many of these transactions the conflict of Mr. Cox's interest with his duty is so apparent that the care of the insurance funds could not always have been the sole consideration.

A transaction having a different significance should also be referred to. In October, 1902, a large loan was made by the company to A. E. Ames & Co., upon the security of the Metropolitan Bank and Sao Paulo stock. At December 31, 1902, the loan amounted to $389,500, and was secured by 1,800 shares of Metropolitan Bank stock and 1,040 shares of Sao Paulo.

On that day, being the last day of the year, A. E. Ames & Co. appear to have discounted a note with the Canadian Bank of Commerce, out of the proceeds of which they paid off the loan from the company, and the parties went through the form of releasing or transferring the securities; but on January 2, 1903, the company paid off the bank and received the shares back.

Although it is represented that this transaction did not result from a desire to conceal this loan from the Insurance Department, it was certainly calculated to have that effect, and it is impossible to give credence to the theory that there was any real paying off of the loan, in view of the circumstances.

There should be borne in mind also the letters of September 10, 1902, and December 15, 1902, from the Department to the Minister of Justice, in which securities of the Sao Paulo class were being questioned. It is difficult to believe that there was no connection between the raising of the question by the department and the temporary calling in of the loan at the critical date of the annual return.

THE SUN LIFE ASSURANCE COMPANY OF CANADA.

This company was incorporated in 1865 by an Act of the late province of Canada (28 Vic., cap. 43), under the name of 'The Sun Insurance Company of Montreal.' As incorporated, the company had powers in respect of fire, marine, accident and guarantee insurance, as well as in respect of life insurance; but, with the exception of some accident insurance, which may be disregarded for the purpose of this report, none of the powers conferred by the Act, except in respect of life insurance, have ever been exercised, and the powers in respect of fire and marine insurance were expressly taken away by subsequent legislation.

The original capitalization provided by the Act was $2,000,000, in shares of $100 each.

Section 16 of the Act, which provided for the sharing of profits with policyholders, was as follows :—

> 'It shall be lawful for a majority of the said directors, if they shall deem it for the interest of the said company, to return to the holders of policies or other instruments, such part or parts of the actual realized profits of the company, in such parts, shares and proportions, and at such times and in such manner as

the said directors may deem advisable, and to enter into obligations so to do either by endorsements on the policies or otherwise; provided always, that such holders of policies or other instruments shall not be held to be in anywise answerable for the debts or losses of the said company, beyond the amount of the premium or premiums which may have been actually paid up by him, her or them.'

The Act further contained a provision that before commencing the life department of the business, $800,000 of the stock should be subscribed for, and an additional sum of $100,000 paid up and invested in securities of the province, for the special security of the assurances on lives to be effected with the company.

The powers of investment conferred by this Act are subsequently the same as those conferred upon the Canada Life Assurance Company by its original Act of Incorporation.

The Act also made the corporate rights conferred by its subject to the provisions of any general enactment thereafter to be passed with reference to insurance companies or the business of insurance.

In 1870, before the company had commenced to do business, the Act was amended (33 Vic., cap. 58).

By the amending Act the Act of Incorporation was extended, so that the capital stock was to be $1,000,000, with power to increase the same in sums of not less than $1,000,000 to a sum not exceeding $4,000,000.

The general privileges of insurance companies with respect to obtaining licenses on the deposit of $50,000 were extended to the company as fully as if the company had complied with the requirements of the original Act.

The business of life and accident assurance was to be established and maintained as a distinct branch of the business, and the authorized capital stock of $1,000,000 was to be applied solely to that branch, with a power of increasing the same to $2,000,000.

The similar provisions made in respect of fire, marine and guarantee insurance, which were to be established and maintained as a distinct branch under the name of the General Branch, may be disregarded, save to observe that there were to be seperate accounts of stock, and the expenses, profits, claims, losses, liabilities and assets under that branch were to be kept separate.

Section 11 forbade any director or other officer to borrow the company's funds or become surety for any borrower.

The securities which the company might hold were to include the securities of the Dominion of Canada or of any of the provinces comprising the Dominion.

In the following year the company began business, and obtained an Act of Parliament (34 Vic., cap. 53), changing its name to the Sun Mutual Life Insurance Company of Montreal, and restricting the powers of the company to life and accident insurance, repealing for that purpose all inconsistent provisions of the incorporating and amending Acts.

Two further Acts may be referred to, both Acts of the Parliament of Canada; one, the earlier, passed in 1882 (45 Vic., cap. 100), again changing the name of the company to the Sun Life Assurance Company of Canada; reducing the qualification of directors from 50 to 25 shares and giving the company, in addition to the powers given by the Act of Incorporation in respect of investments, the power to

'invest their funds, or any part thereof in the public or other securities of Great Britain or any of her dependencies, or of any foreign state or states, whenever it shall be necessary so to do, in order to enable the company to carry on business in such foreign state or states, and in such manner as the directors may elect, and may, from time to time, vary or sell the said securities and investments, or pledge the same as occasion may require; provided always, that the investments of the company in the securities of any foreign state or states for the purpose of carrying on business therein as aforesaid, shall at no time exceed the amount necessary

to enable the company so to do in accordance with the laws of such foreign state or states.'

The other Act was passed in 1897 (61 Vic., cap. 82), and makes further provision in respect of the powers of investment, in the following terms:—

'The Sun Life Insurance Company of Canada, hereinafter called "the company" may, in addition to the powers heretofore conferred upon the company, invest its funds in ground rents on real estate or mortgage security thereon, in any province of Canada, and in or upon any bonds or debentures of any state of the United States, or of any municipality in the United States, or in mortgage on real estate therein; but the amount so invested in the United States shall not at any time exceed the reserve upon all outstanding policies in force in the United States; and such reserve sall be calculated upon the basis prescribed by the Insurance Act.'

The company commenced business in 1871 with a subscribed capital of $500,000, of which 10 per cent was paid up, and in 1876 another 2½ per cent was paid up, making the the total paid up capital $62,000. The paid up capital remained at that figure until 1897, the company having in the meantime prospered and no other capital being at any time required.

In the year 1897, however, the company was proposing to enter into business in the State of New York, and under the law of that state was required to have a paid up capital of $100,000. This was arranged for by an issue of further capital stock to the amount of $200,000, at a premium of $30 per share, and the new stock so issued was called up to the extent of 15 per cent. The total amount received by the company, therefore, in respect of each share of the new issue was $45, of which $15 was on account of the share and $30 the premium. At the same time a bonus of 2½ per cent was declared upon the original subscription of $500,000, making that also stock upon which 15 per cent had been paid. This bonus was paid out of the profits of the company.

From 1897 down to the present time, therefore, the total capitalization of the company has been $700,000, upon which 15 per cent or $105,000 has been paid up, disregarding, of course, the premium of $30 per share upon the issue of 1897.

The company did not at that time extend into the State of New York, because of a requirement of the Insurance Department of that state that $10,000 should be deposited to cover and secure the expense of preliminary investigation, which the company declined to do.

It is made plain by the evidence that the issue of new stock was not necessary for any financial reason connected either with the operations of the company in Canada or with the proposed extension into the State of New York.

It is to be observed that the management of this company have had differences with the Department as to their investments, and as to the classification of accounts and other matters of detail. The company has constantly adhered to its own view without regard to the view of the Department.

In the conduct of the affairs of the company there does not seem to have been any serious diversity of view among the directors. Although the president and secretary (Mr. Robertson Macaulay and Mr. T. B. Macaulay), own or control only 1,740 shares out of the 7,000, it has appeared that the policy of the president has been always adopted by the Board of Directors to as great an extent as if there had been a more absolute control of the stock. The personnel of the board has remained practically the same since 1891, the only changes being the removal of some of the members by death and their places being filled.

It was disclosed in the evidence that the company invested in the securities of a certain undertaking, and portions of these securities were handed over to certain members of the board on the same terms as the company acquired its holding. It is

reasonably clear that by this transaction the members of the board so obtaining these securities did so on more advantageous terms than would have been possible for them as individuals. It is claimed that this was in pursuance of an arrangement made when the acquiring of the securities was discussed at the board, but there is no written evidence of such arrangement. The verbal testimony does not even establish that there was any proposal, when the matter was before the board, by any director but one that the investment should be shared with any of the directors of the company, and as to that single director there is a complete absence of proof that he specified any particular quantum of the stock, or that either he or the company became in any way bound to divide the purchase. It had to be conceded that if, before the transaction was carried out, either he or any other director had sought to enforce the alleged understanding, he was not in a position to do so; and also that, if the investment had turned out to be an undesirable one, it would have been impossible to enforce upon either the director mentioned or any of the other directors any obligation to take any share in the venture.

The theory of the company has always been that the capital stock was entitled to interest, besides its ascertained share of profits. So far back as 1892, interest has been allowed in addition to such proportion of the profits as the directors chose to allot to shareholders. A shareholders' account has been kept, to which has been credited not only the interest but also the proportion of the profits allotted to them from time to time, and it is out of this account that the dividends have been declared.

During 1891, and the first half of 1892, dividends at the rate of 12 per cent, and since and including the latter half of 1892, at 15 per cent, have been declared, besides the bonus of 2½ per cent upon the old stock in 1897.

Carrying to the credit of the shareholders' account the ascertained proportion of profits and interest has not, however, enabled the company to pay these dividends, and from time to time the directors have resorted to various devices for the purpose of increasing the shareholders' account, so as to enable it to pay the dividends which have been paid.

The first of these devices was to credit the practically defunct accident branch with considerable sums of money, upon the theory that that branch in years past had been charged more than its proportion of the general expenses of the company. The accident branch being so credited out of the current profits, the sums so credited were brought into the shareholders' account for the purpose of augmenting it and so enabling the dividends to be paid. Three sums were so credited to the accident branch and brought in to the detriment of the policyholders and in case of the shareholders; $2,000 in 1895; $4,000 in 1900; and $30,000 in 1902; and the evidence is that there are still at the credit of the accident branch considerable sums of money, the intention being to bring these also into the shareholders' account. It is manifest that in revising the charges made in past years to the accident branch, the directors of the present day have undertaken to overrule what may be presumed to have been the well informed and deliberate decision of the directors of former years as to the proper proportion of expenses to be charged to that branch, and your commissioners think it clear that the revision was undertaken solely as a device for maintaining the shareholders' account.

Another improper means by which the shareholders' account has been enabled to provide the dividends paid to shareholders is by similarly revising the rate of interest allowed upon capital in addition to its share of the profits in past years. The method adopted has been to go through the years as far back as 1877 and to allow, instead of the rates which were allowed, a rate of 6 per cent, which has been improved at 6 per cent, compound interest, from 1877 down. The result of this has been to bring into the shareholders' account $9,088.34 (in 1901).

A third method of swelling the shareholders' account has been to go back to the year 1897, when the new capital was issued at a premium of $30 per share, and to bring into the general shareholders' account interest, compounded at 6 per cent, upon

that premium. This revision of the earlier dealing with this premium, to the prejudice of policyholders, was also, in the opinion of your commissioners, improper. In this way the shareholders' account was swollen in 1905 by the sum of $37,930.73.

Still a fourth method of maintaining the shareholders' account was to take out of moneys realized upon the sale of investments large sums, in addition to the proportion of profits allotted to the shareholders. This is claimed to have been done by way of anticipation of profits to be ascertained and declared in the future, the suggestion being that when the time arrives for the distribution of these profits, the shareholders, upon the principle of distribution which has been adopted, will be entitled to the sums so forestalled, or greater sums.

In many respects the methods of bookkeeping adopted by this company are not only defective but likely to mislead and deceive. An account has been maintained, under various names, having as its ostensible object the recording of profits and losses on the sale or realization of investments in the nature of stocks and bonds. In the main, the credit side of this account is, though incomplete, intelligible in principle, assuming the propriety of this method of bookkeeping, inasmuch as it records actual cash profits made on the sale or realization of securities. As this account has grown in magnitude and importance, however, the cash profits shown upon the credit side have been made use of by means of fictitious entries upon the debit side to confuse and conceal the true state of other assets and investments of the company, and its income and expenditure. Assets and securities in respect of which there has been depreciation, anticipated loss or loss in fact have been treated as made good out of the profits shown upon the credit side of this account. An an example, large arrears of interest upon certain mortgages have been made to appear as having been collected, the profit made upon the sale of other securities (stocks and bonds) being depleted for that purpose.

Expenses which ought to have been included in expense account and returned as expenses in the government returns, have been similarly wiped out and concealed by being taken out of these profits.

Balance due from agents, which were not entitled to be treated as assets, have been made good out of the same source.

In connection with the agents' balances another irregularity, which does not concern the account just dealt with, should also be referred to. Where there has been a considerable balance bue by agents 'A,' 'B' and 'C,' and a considerable balance due by the company to agents 'X,' 'Y' and 'Z,' the latter being an undoubted liability, and the former an asset which the company was not entitled to include in its return, the one has been set off against the other so that, to the extent of the excluded asset, the admitted liability has remained undisclosed.

This company's favourite field for investment has been securities of companies promoted for the establishment of what are called public utilities. The policy of the directors has been to invest in these promotions at an early stage, with the hope of reaping such advantages as the development of these schemes promised.

One feature of these investments which has apparently recommended itself particularly to the Board of Directors has been the allotment or distribution of what are called 'bonus' stocks among the subscribers to the early issues of bonds, and the company has purchased largely bond securities of enterprises of this kind, receiving therewith the bonus stocks and holding the latter with a view to their ultimately earning dividends and so acquiring a market value.

Among these enterprises is that of the Shawinigan Water and Power Company. This company's stock did not represent any real investment of capital, but was issued as fully paid up. The promoters of the scheme found the money for its development by issuing and selling to the public the bonds of the company secured upon the undertaking, the lure to the public being gilded with accompanying transfers of the stock by way of bonus. This familiar method of promotion—objectionable though it is in the opinion of your commissioners—is not uncommon in the history of such

enterprises, and seems to have appealed strongly to the speculative instincts of the board.

In May, 1901, a purchase was made by the company of the bonds of this enterprise for $50,000, par value, at 95; and in February and March, 1902, two other purchases were made, each of $25,000 par value, both at 98, making altogether a purchase of $100,000 of these bonds, par value. The capitalization of the company was $6,000,000, of which it was stated that $5,916,500 had been issued as fully paid up. Mr. T. B. Macaulay says that he did not at all suppose that anything like that sum of money had ever been put up by anybody in cash or in assets.

At that time the Shawinigan Company was authorized to issue bonds to an amount not exceeding 75 per cent of the paid up capital, and it was part of this issue that the company so purchased. It is not clear that at the date of the purchase the Shawinigan Company was in operation, though Mr. Macaulay says his recollection is, 'that the plant was in partial operation, but was not complete.'

In November, 1902, the Shawinigan Company borrowed from the Sun Life Assurance Company $250,000 at 6 per cent, upon the security of bonds of a new temporary issue, to the par value of $313,000, the lenders receiving as the consideration for the loan a bonus in so-called paid-up stock of the company to the par value of $125,000.

In May, 1903, a further loan upon the temporary bonds of the Shawinigan Company was made, the sum loaned being $100,000, and the security pledged being bonds to the par value of $111,000. The lenders in this case received 15 per cent of the amount loaned (or $15,000), in so-called bonus stock.

The earlier of these two loans seems to have been part of a total underwritten loan of $650,000, the company being a subscriber with others to the amount loaned by it; and the later of the two loans was apparently part of an underwriting of a total loan of $250,000.

Both these loans matured in November, 1903, and it was then arranged that interest upon the loan, amounting to $6,500, should be capitalized, making the total amount of the loan $356,500. At this date the company was pressing vigorously to have the loan paid off, and indeed was not in funds to carry it. The end of the year was approaching and the banking account of the company would have shown a large overdraft had some arrangement not been made. It was agreed that the Merchants Bank—which was the banker of the company—should loan $200,000 upon the note of the Shawinigan Company, endorsed by the Sun Life Assurance Company, and should take over a proportionate part of the securities held. This left the company carrying $156,500 of the loan, including the $6,500 of capitalized interest, and the Shawinigan Company agreed to hand over further bonus stock to the extent of 10 per cent upon the whole debt so arranged, or $35,700, including the bonus upon the capitalized interest.

By the arrangement the bank was to receive a proportionate part of so much of this bonus as was attributable to the $200,000 assumed by it, having regard to the time during which the bank's money should remain lent. The note to the bank was at six months from the 19th November, 1903, and, therefore, would have matured on the 22nd May, 1904; but on the 1st March, 1904, the Sun Life Assurance Company borrowed $200,000 from the bank, paid the note and took back the securities and the bonus stock, less $3,500 of that stock, the bank's share. The Shawinigan Company was paying 6 per cent, and the Sun Life Assurance Company paid the bank 5 per cent for the money loaned to release these securities. The company was then reinstated in the position of lender to the Shawinigan Company, to the extent of $356,500, for which they held bonds to the value of $424,000 in pledge, and in respect of which they held and were entitled to retain bonus stock to the face value of $172,200. This, of course, was in addition to the $100,000 of bonds which they had directly purchased in 1901 and 1902. In August, 1904, the $100,000 of bonds were sold at a profit, and in the same month, or in September, the loan was extinguished by the company becoming purchasers of bonds to the extent of $411,000 par value, without any bonus stock, at [illegible] and interest. In 1905 these bonds were also sold at 90 and interest, so that a profit was made in respect of them also.

The $172,000 of bonus stock continued to be carried by the company, and was omitted from the government returns.

The connection of the Sun Life Assurance Company with the public utility enterprise now included in the Illinois Traction System forms an important chapter in the history of the company.

In the fall of 1902 the management of the company, which has always apparently been surrounded by an obedient board, took up the policy of extending the company's investment in the direction of traction and kindred schemes. It is manifest that the reason underlying this important change in the company's policy was that mortgage and municipal securities and the like did not offer sufficient opportunities for making large speculative profits. At page 2890 of the evidence Mr. T. B. Macaulay says:—

'I know our policy was to dispose of municipal debentures.

'Q. They were only bringing 4 or 4½? A. Yes, and we considered it good investment to drop those things and take up this one,.....

'Q. Was not the great inducement to go into this rather than to go into other investments of an equally safe character, the fact that out of this you hoped to reap large profits in addition to the interest on your money? A. Undoubtedly. We consider safety is the first thing, but if we have the choice of two investments equally safe, then we are bound to take the one with the best return.

At page 2885 he says:—

'We were abandoning mortgages and of all the new forms of investments that opened before us, we considered that traction securities were the most desirable for many reasons.

'Q. Now, you have just stated in the last sentence that you uttered, an answer to my question; you were abandoning a class of security which you had been investing in largely in the early part of your history—that is mortgage securities—and you were seeking to substitute what you considered the most desirable form of investment that you knew of, that is these traction securities? A. Yes.

'Q. And that, you say, was the policy which you were advocating. A. Yes.

'Q. Were you enquiring.....among those who were projecting roads, or among those whose enterprises were complete and in a fairly satisfactory position, or how were you doing in regard to that? A. We wished to see in the first place all those that we had already any of the bonds of, and then while we wished to get a grasp of the entire situation, for educational purposes, yet we wished principally to get into touch with companies that might be likely to bring out securities of their own in the near future. Companies that were absolutely completed and would not be likely to bring out any new securities would not interest us, because we had business in view, and we wanted to get into touch with corporations likely to have bonds issued.

'Q. I take it you wanted to get into touch with corporations which were projecting works?—A. Yes.

'Q. So that you might furnish the money for financing the works and so have your securities a charge upon the undertaking?—A. Yes.'

In pursuance of this policy the management laid before the board on November 4, 1902, a proposition looking towards the carrying out of this policy, and the result was that Mr. T. B. Macaulay and Vice-President Kingman were authorized by the board to visit the States of Ohio, Indiana, Illinois and Michigan 'to look over the whole ground.'

Before starting upon his mission, Mr. Macaulay addressed thirty-five circulars to persons whose names he found in the Street Railway Supplement to the Commercial and Financial Chronicle of New York, all of them being presidents or managers of companies which seemed likely to be engaged in enterprises suited to the management's new policy. Among those from whom replies were received was a gentleman named McKinley, of Champaign, Ill.

Mr. McKinley, who is a professional promoter, describes himself as:—

'The manager of about a dozen gas, electric light, street railway and inter-urban railway properties which I have promoted and financed in the east.'

He says:—

'New propositions are offered me constantly, many of which are not attractive and some occasionally have a great deal of merit.'

Among other propositions which his reply puts before Mr. Macaulay are two, one of which is spoken of as the Danville property, and the other as the Gas, Electric, Light, Steam Heat and Street Railway Systems of Urbana and Champaign. These two properties and the connecting link of a projected inter-urban railway between them, were the nucleus of the Illinois Traction System.

Mr. Macaulay and Mr. Kingman proceeded to Chicago, saw a large proportion of the field which they had intended to cover, and spent 'between one and two days' of the time in looking over Mr. McKinley's scheme. Subsequently Mr. McKinley visited Montreal, and the matter began to take shape. The ultimate plan adopted was to form a parent company, whose assets should be the capital stock of certain subsidiary companies; that the Sun Life Assurance Company should find the money for the purpose of purchasing the subsidiary stock in pursuance of this plan, and that the subsidiary companies should then issue their bonds which were to be given to the Assurance Company in payment of its advances.

It was arranged that Mr. McKinley should put up one-third of the cash necessary to purchase these various stocks, and that the Assurance Company should put up two-thirds, and that in the end the Assurance Company and Mr. McKinley should be equally interested in the financial results. The company put up its share in the form of loans to Mr. McKinley, with which the stock was purchased. Between January and March, 1903, the Assurance Company advanced to McKinley, $365,400, with which he purchased the shares of two contemplated subsidiaries, the Vermilion Railway and Light Company, and the Urbanas and Champaign Railway, Gas and Electric Company. The parent company then proposed to be incorporated was to be known by the name of 'The Illinois Railways and Light Company.'

The two subsidiaries whose stock had so been purchased appear to have been united in a further subsidiary company, known as the Danville Urbana and Champaign Railway Company, and that company's bonds, to the extent of $1,000,000, were equally divided between McKinley and his associates upon the one hand, and the Assurance Company and certain of its directors and their friends on the other hand.

The $500,000 to which the Assurance Company was entitled was distributed as follows:—

The Assurance Company received bonds to the extent of $406,000 in discharge of the debt of McKinley for $365,400.

The President of the Assurance Company received $13,000 of the same bonds; the secretary, $50,000; Mr. H. R. Macaulay, $10,000; Director Kingman, $10,000; Director Tasker, $6,000; and a Mr. Stevenson, $5,000; all of which was paid for at the advantageous rate for which the Assurance Company had stipulated.

It seems manifest that from the first the management of the Assurance Company was actively engaged in the promotion of the parent and subsidiary companies. They were to nominate one-half of the board of the parent company which was to own all the subsidiary companies' stock. From the beginning Mr. T. B. Macaulay controlled and managed all that was done, no doubt consulting Mr. McKinley from time to time, but retaining with a firm hand the reins of management. This is made abundantly manifest by the correspondence between himself and the attorney whom he nominated.

The first parent company was incorporated in the State of New Jersey and its capitalization was $3,000,000, which was equally divided between the Assurance Company and its directors and friends mentioned above upon the one hand, and Mr. McKinley and his associates upon the other. Of the $1,500,000 of stock which fell to the Assu-

rance Company, $1,218,000 was taken by it; $39,000 by the president; $150,000 by the secretary; $30,000 by H. R. Macaulay; $30,000 by Director Kingman; $18,000 by Director Tasker; and $15,000 by Mr. Stevenson. This bonus stock was, of course, issued to them as fully paid, and the other $1,500,000 was issued to McKinley and his associates in the same way.

Mr. Macaulay and Mr. McKinley were naturally looking about for other subsidiary schemes and companies to be brought within the domain of the parent company. Indeed the policy upon which the management of the Assurance Company had embarked prevented them from standing still. To extend and consolidate their interests was a vital necessity. Others were seeking to occupy the field which they had opened, and to have permitted this would have been to invite disaster. Accordingly in December, 1903, we find another subsidiary company incorporated, called the Decatur, Springfield, and St. Louis Railway Company. This company purchased the Decatur Street Railway, a local undertaking, and was intended to acquire certain gas and electric franchises in that city and to build a line of railway from Decatur westward to Springfield. Difficulties arising, however, under the state law, the proposition assumed a somewhat different form. Three subsidiaries were substituted for the proposed Decatur, Springfield and St. Louis Railway Company: (1) The Decatur Light Company, to acquire and operate the Decatur Street Railway and the Decatur gas and electric franchises and plant. (2) The Illinois Central Traction Company, to build a railway between Decatur and Springfield, and (3) The St. Louis and Springfield Railway Company, to buil a railway from Springfield south towards St. Louis. With regard to the enterprises which the parent company had thus to purchase, $780,000 of its stock was issued by way of purchase money to the vendors.

At the same time a new parent company was formed called The Illinois Traction Company. This company was incorporated in the State of Maine to escape the corporation tax of the State of New Jersey. The capitalization of the new company, which acquired all the assets of the old company, was originally $4,000,000, divided as follows: $1,600,000 preferred and $2,400,000 common stock.

As the subsidiary enterprises have grown and multiplied capitalization has increased, and the total authorized amount now is $11,000,000, of which $4,000,000 is preferred and $7,000,000 common. The actual amount outstanding is $3,274,300 prefered, of which at the time the matter was made the subject of inquiry before your Commissionners the Assurance Company held $658,900, and $5,822,000 common, of which the Assurance Company holds $3,625,400.

The holdings of the Assurance Company are all bonus stock. $580,000 of the preferred stock, however, was acquired for the company and some of its directors under the following circumstances: Mr. McKinley offered this $580,000 of preferred stock to the Assurance Company in exchange for bonds of subsidiary companies to the amount of $353,000.

This was considered a desirable transaction by the management, and it was arranged and carried out about December 31, 1904. Subsequently some of the directors claimed that there had been an understanding at the board meeting when the transaction was authorized to be carried through, that they should be permitted to take part in this purchase of preferred stock, and a month later entries were made by which the transaction was put upon that footing. This is the transaction in respect of which your Commissioners have already pointed out that there was no minute at the board meeting of any such arrangement, and that it had to be conceded that there was no binding arrangement which could have been enforced either by or against the directors. The directors in this manner acquired $223,100 out of the $580,000 of preferred stock, as follows: T. B. Macaulay, $94,900; A. Kingman, $4,600; R. Macaulay, $48,100; S. H. Ewing, $20,000; J. R. Dougall, $5,000; MacPherson estate, $2,500.

The preparation and signing, in the following September, by R. Macaulay, S. H. Ewing, A. Kingman and J. R. Dougall of a memorandum intended to explain and

justify this dealing with the directors, in the opinion of your Commissioners indicates doubts on the part of the directors themselves as to the propriety of the transaction.

It is unnecessary to follow the course of development of the enterprises of the Illinois Traction Company. Below will be found a list of the subsidiary companies, with a statement of their bonded debt, and of the investments, so-called, of the Assurance Company in the various bond issues. This, of course, is in addition to the enormous holding of bonus stock, both preferred and common.

Company.	Bond Issue.	Bonds owned by Sun Life.	Ledger value of bonds.
	$	$	$
Bloomington & Normal Ry. Electric & Heat Co	600,000	None	
Bloomington & Normal Ry. & Light Co	450,000	450,000	382,500
(This issue is subject to the $600,000 mentioned in the preceding line.)			
Central Railway Co. of Peoria	570,000	None	
Chicago, Bloomington & Decatur Ry.	1,000,000	454,000	385,900
Consumers Light & Heat Co	180,000	180,000	153,000
Danville G. E. L. & St. Ry. Co	24,000	None	
Danville St. Ry. & Light Co	673,000	None	
Danville, Urbana & Champaign Ry. Co	1,650,000	"	
D. U. & C. Ry. Co. 2nd mortgage	328,000	328,000	285,934
(Subject to issue of $1,650,000 mentioned in preceding line.)			
Danville & Northern R.R	17,000	None	
Decatur Gas & Electric Co	90,000	"	
Decatur Gas & Electric Co	300,000	None	
Decatur Ry. & Light Co	600,000	"	
Decatur Traction & Electric Co	212,000	"	
Illinois Central Traction Co	1,370,000	"	
Jacksonville, G. L. & C. Co	175,000	"	
Jacksonville Ry. Co	34,000	"	
Jacksonville Ry. & Light Co	375,000	169,000	143,650
(Subject to issues of $175,000 and $34,000 mentioned in preceding two lines.)			
Peoria, Bloomington & Champaign Traction Co	1,333,000	1,052,000	894,200
Peoria Railway Co	2,750,000	690,000	617,898
Peoria Traction Co	353,000	353,000	300,000
(These two bond issues Peoria Ry. Co. $690,000 and Peoria Traction Co. $353,000 are subject to the bonds of the Central Ry. Co. $570,000 mentioned above.)			
Springfield & North Eastern Traction	479,000	470,000	399,500
St. Louis Decatur & Champaign Ry	760,000	760,000	646,000
St. Louis & North Eastern Ry. Co.	2,390,000	2,378,000	2,021,300
St. Louis & Springfield Ry. Co	1,520,000	616,000	536,410
Urbana Light, Heat & Power Co	51,500	None	
U. & C. Ry. Gas & Electric Co	202,000	"	
U. & C. Ry. Gas & Electric Co (Consolidated)	274,000	"	
	18,760,000	7,900,000	6,756,292

It is plain to your Commissioners that the large interest of the Assurance Company in these various enterprises is greatly in excess of the limits of reasonable investment. Apart from any question of statutory power, it seems to your Commissioners that to engage the funds of an insurance company in enterprises of this character to such an extent as necessarily to involve the directors of the insurance company in promotion, construction and management, is foreign to the purposes of an insurance company and calculated to imperil its funds. In the opinion of your Commissioners, the embarking upon such enterprises is no legitimate function of an insurance company and is a misuse of powers of investment, however wide. It does not seem to your Commissioners that the success or failure of any particular undertaking has any bearing upon the question of principle involved, or affords any true standard of propriety. Other enterprises, similar in character, as will be seen in a later part of this report, have ended in serious loss, although the directors were so sanguine in regard to them as their evidence showed them to be in the case under discussion.

Mr. Macaulay, who no doubt voiced the company's policy in this respect, was apparently much alarmed at the suggestion that these securities should now be converted at a profit as he claimed to be possible. He looked upon this suggestion as involving an 'awful sacrifice to the policyholders.' (page 2919).

'Q. You say you could realize at a profit? A. We certainly could.

'Q. But you would be abandoning all ideas of these grand prospective profits which you see in the future.—A. Precisely. We would be giving that over to the brokers and speculators.'

Notwithstanding the magnitude of the amount already at stake, the field is not yet completely occupied. Mr. Macaulay says: (page 2919.)

'Q. With these large views of yours, for the future of this traction scheme, you no doubt expect and intend to put large sums of money in it in addition to what you have put in.—A. My idea is that the Illinois Traction Company, as a field for investment, will be one into which money can be put with profit for about another couple of years. After that the field will be pretty well occupied and we will have to look elsewhere.

Q. Do you expect and intend to take part in the putting in of further money during those couple of years?—A. Unquestionably.

Q. And you expect and intend to take a large part?—A. Unquestionably.

Q. And bear a large additional expenditure?—A. Unquestionably.'

That enterprises which are so favourably viewed by the management of this company may sometimes fail to answer the large expectation of profit entertained, and may sometimes result in serious loss, is shown in the case of some similar enterprises in which the company engaged.

Among these are what may be spoken of as the Appleyard enterprises. Appleyard occupied the same position with regard to these as McKinley did with regard to Illinois Traction.

The Appleyard enterprises were said by Mr. Macaulay to have had the same inherent merits as the Illinois Traction, and the unsatisfactory result of the operations in them he attributed largely to two circumstances; first, mismanagement by Appleyard; secondly, absence of control by the Assurance Company. He says:—(page 2922.)

'Q. Who was Appleyard? Did he occupy the same position with regard to this system as McKinley did with regard to the other?—A. Yes, except that there was all the difference of a mile between the two men.

Q. But his attitude towards the proposition was the same as the attitude of the other man?—A. Yes, with this difference, that he controlled these other things.

Q. Who?—A. Appleyard controlled the Ohio property, while under the way we fixed things with McKinley; McKinley did not control them.'

Page 2929:—

Q. You did not invest in these without thinking they were A1 stocks?—A. Yes, but our judgment was not as matured then. It was not sound.

Q. Is this loss wholly explained by want of experience on the part of the investor?—A. We would have had no loss at all but for the wrong doing of Mr. Appleyard.

Q. When you say wrong doing, you mean incompetence?—A. Incompetence and wrong doing, mismanagement right through and through.

Q. Well, do you think that you have any insurance against mismanagement in other quarters?—A. We know that this has taught us one lesson, and that is the importance of control. There was no trouble at all with those properties, except Mr. Appleyard. If they had been controlled by Mr. McKinley, or any other first-class man, there would have been no trouble at all. If we had been able to exercise control in the same way as we have the power in the Illinois Traction Company, not only would we have had no trouble, but we would have made an immense amount of profit. One lesson we draw from this is the importance of being able to control the policy, and doing the thing we have been doing——

Q. And underlying all that is the personality of the man in charge?—A. Yes.'

Page 2930:—

Q. Take, for instance, the Cornwall Street Railway, that did not turn out in its early maturity to be a good investment?—A. No.

Q. And I think practicaly that has involved a life insurance company running it?—A. Fes.

Q. Do you consider that desirable?—A. I do not. Your Honour, we have learnt certain things from our experience with investments.

Q. But you do not mean to say that you have learnt all there is to be learned?—A. No, but when we have learned a lesson——

Q. If you are an apt pupil you would be learning year after year?—A. Yes.

Q. And the thing that seems rosy this year may not be rosy five years later in your experience?—A. Possibly so, but when we have learnt a thing to be bad, we have learned it. The Appleyard lesson burned into us the importance of management, and the Cornwall affair burned into us another lesson, the importance of population. Now there was no trouble at all with the Cornwall Street Railway except the lack of population——

Q. Really do you tell us that you had to go through the experience you had with the Cornwall Street Railway to have that proposition burnt into you, to learn a lesson?—A. In the first place that was our very first investment.

Page 2931:—

Q. You had a considerable experience in Levis County Railway Bonds?—A. Yes, same lesson exactly.

Q. How much?—A. $100,000. I correct that, and say $85,000.

Q. $100,000 bought at 85?—A. Yes.

Q. Did you have to foreclose on your bonds?—A. There was $250,000 of bondholders , and we held $100,000 and the bondholders foreclosed.

Q. Who is running the road?—A. The bondholders.

Q. A life insurance company is taking part in running another road as the result of investment in the traction proposition?—A. Yes, and again there was a very large amount put behind those bonds in hard cash, but the lesson shows the folly of any kind of restriction that limits us to Canadian enterprises. We would not have invested in the Lévis County matter were it not for the restriction.

Q. You did not invest in it knowing it was bad?—A. We had thought it was good, but knowing it was inferior to those in the United States. It was as good as we could get in Canada.'

Speaking of an investment of $500,000 in Montreal Terminal stock, he says; (Page 2932):—

'The Montreal Terminal was another of the very early investments we made when we first began....But it came as a result of that and partly from what we saw in connection with the Central Market (one of the Appleyard stocks) 'that one of our positive rules is that we will not touch a competing road in any city. That is one thing that can be learned from that.....In those olden days we had a great idea about the desirability of having a competing city railway, but my ideas have all changed on that point, and I have no use now for a competing city railway.'

The Appleyard transactions began with a series of loans to Appleyard, upon certain traction securities offered by him. They involved altogether advances to about $500,000, and covered securities aggregating about $700,000. There was, in each case, an engagement on the part of Appleyard to repurchase the security at an advance. In the result Appleyard was unable to pay, and the amount of the debt, with the advance added, was $539,000. In August, 1903, an agreement was made by which certain other stocks and bonds aggregating about $1,250,000, par value, and apparently estimated at the time as of a market value of $739,000, were sold at the latter figure by

Appleyard to the company, and out of the proceeds the company paid itself the debt of $539,000, accounting for the balance in cash and other stocks and bonds.

In connection with the securities acquired from Appleyard, the following writings off have taken place:—

Central Market Railway preferred stock (the whole)..	$67,425	$ ....
Central Market Railway bonus stock (the whole..	100,000	....
Columbus, London & Springfield Ry. Co., preferred stock..	....	145,881
" " " bonds.	....	80,000
" " " bonus stock.. ..	227,500	....
Dayton, Springfield & Urbana preferred stock..	....	125,000
" " bonds..	....	5,000
Dayton, Lebannon & Cincinnati bonds..	....	20,000
" " bonus stock..	380,000	....
Totals..	$774,925	$375,881

In respect of the securities whose estimated value in the settlement between the company and Appleyard was $739,000, the writings off in the second column above, aggregating $373,881, were made.

Besides the Appleyard securities, the following investments are noticeable:—

In the case of the Levis County Railway Bonds, which were purchased to the extent of $100,000, at 85, the bondholders, including the Assurance Company, have foreclosed and are operating the road.

In the case of the New Hampshire Traction Company, the Assurance Company bought bonds to the extent of $218,000, par value, paying $198,105 for them, receiving at the same time bonus stock to the extent of $24,000.

In October, 1905, this holding was exchanged for preferred stock of the same company, par value $100,000, valued in the books at $100,000; common stock par value $118,000, valued at $70,800, the balance of the original investment $27,305, being written off. In December of the same year $10,000 was written off the preferred stock, and $40,000 off the common.

The investment made in connection with the Cornwall Street Railway has undergone many changes in form, but in the ultimate result the Assurance Company is operating the railway, having written off its books $100,000 in respect of the investment.

It should be said that in respect of several of these securities, Mr. Macaulay claims that there will not be an ultimate loss, and that in some cases there will be a profit, but the history of the transactions illustrates the precarious and speculative nature of transactions of this class, and, as pointed out above, success or failure furnishes no standard of propriety.

The company's method of accounting with respect to bonus stocks, should be mentioned. The transactions whereby these stocks were acquired involved the acquisition of both bonds and stock in consideration of the payment of money or exchange of securities. It would seem to your Commissioners that under these circumstances the company should show in its books the full amount of both bonds and stocks received as against the consideration given. Instead of this the company has treated the payment made as the consideration for the bonds only, leaving the stocks in its hands as representing no value and involving no outlay or cost. To preserve a record of all the bonus stocks received, an account was kept in which they were entered, the value in each case, irrespective of amount, being placed at the nominal sum of $1.

The result was that the company had in its possession large holdings of bonus stocks, which, it was contended by the officers of the company, were of real and substantial value, upon which no value was placed in the books, and which were not in any way shown in the annual returns made to the Government.

Besides stocks so acquired, the company, as stated above, from time to time wrote off other stocks against which certain values had appeared in their books. This seems to have been done when the opportunity offered as the result of large unusual profits obtained by the company from other securities and when loss occurred or was threatened with respect to the stock so written off.

These stocks, along with the bonus stocks, were treated by the company as forming what is described as its 'contingent account' which, at the date of the hearing included the following stocks, then worth, it was alleged, the values indicated below:

SECURITIES IN CONTINGENT ACCOUNT, SEPTEMBER 30, 1906.

	Par.	Cost.	Value.
	$ cts.		$ cts.
Canton Akron Railway Co	75,000 00	29	21,750 00
Capital Power Co	5,000 00	10	500 00
Central Market Street Railway, preferred	74,500 00	Cost	67,425 00
Cleveland, Painesville and Ashtabula Railway	50,000 00	20	10,000 00
Columbus, London and Springfield Railway, preferred	457,000 00	26½	121,350 00
Cornwall Street Railway Co., preferred	100,000 00	50	50,000 00
Cripple Creek Central Railway, preferred	30,000 00	70	21,000 00
Dallas Electric Corporation	30,000 00	25	7,500 00
Dayton Springfield and Urbana Electric Railway, preferred	250,000 00	40	100,000 00
Detroit, Ypsilanti, Ann Arbor and Jackson Railway	36,000 00	35	12,600 00
Electric Development Co	188,800 00	50	94,400 00
Flint Ridge Coal Co	17,560 00	10	1,756 00
Illinois Traction Co	3,625,400 00	55	1,993,970 00
Jersey Central Traction Co	18,800 00	25	4,700 00
Kelly Coal Co	113,750 00	25	28,437 50
Madison County Light and Power Co	75,000 00	50	37,500 00
Mexican Light and Power Co	93,500 00	52	48,620 00
Michigan State Telephone Co	104,300 00	50	52,150 00
Northern Consolidated Holding Co	90,000 00	10	9,000 00
Rio de Janeiro Tramway L. and P. Co	221,400 00	43	95,202 00
Springfield and N. E. Traction Co	1,008,750 00	12½	126,090 00
St. Louis, Decatur and Champaign Railway	74,600 00	110	82,060 00
St. Louis Electric Terminal Railway Co	75,000 00	25	18,750 00
Urbana Light Co	52,500 00	20	10,500 00
Vermilion Coal and Coak Co	28,437,50	50	14,218 75
York Haven Water and Power Co	16,000 00	100	16,000 00
Youngstown and Southern Railway	64,000 00	15	9,600 00
	6,975,297 50		3,055,079 25

—the values indicated aggregating in all the sum of $3,055,079.25.

As already stated the company did not in any way show these stocks as of any value in their books or in their returns, and your Commissioners consider that the maintaining of such a large undisclosed asset in the hands of the company indicates the feeling the directors of the company must have had as to the uncertain nature of the enterprises upon which the company was embarked. The result of not disclosing these assets was to enable the company to conceal losses on these or other investments, and the ultimate object, if the enterprises proved to be permanently successful, was to enable the company to show itself in a stronger position than it would have been in, had it confined itself to usual and proper investments.

The accumulation of so large a contingent fund, earned and maintained by the speculative use of the moneys of the company, including for the most part policy-holders' money—especially without giving the present policy-holders the benefit thereof—is, in the opinion of your Commissioners, improper.

Without this contingent fund, which was not disclosed in the returns, the holding of foreign securities was enlarged by the Illinois Traction dealings to a sum largely in excess of the authority to make foreign investments. This was made the subject of correspondence between the Department and the company after the returns made for 1905. It does not appear that the company departed on this occasion from its characteristic course, which was to dispute the correctness of the views put forward by the Department, and to continue holding the position to which objection had been made.

In the case of this company, the Commissioners cannot pass over, without comment, the improper advertising use made by the company of portions of questions

asked by one of the Commissioners during the examination into the company's affairs Wrested from their context, which plainly gave them a hypothetical significance, they are made to serve as final opinions, deliberately expressed, approving of the management of the company in all its details. It is scarcely necessary to say that none of the Commissioners would have thought it fitting to express any final view in advance of their report, and the Commissioners have no doubt whatever that this was quite understood by those who made use of the circumstance in the way mentioned.

THE MUTUAL LIFE ASSURANCE COMPANY OF CANADA.

This company was incorporated in 1869 by Act of the Province of Ontario, 32 Vic., cap. 17, under the name of the Ontario Mutual Life Insurance Company, and was re-incorporated under the same name by Act of Parliament in 1878, 41 Vic., cap. 33, the name being changed in 1901 to 'The Mutual Life Assurance Company of Canada,' by an amending Act, 63-64 Vic., cap. 112.

The company is authorized to carry on the business of life insurance on the mutual principle, and is the only strictly mutual company of Canadian origin carrying on business in Canada.

It is managed by a board of twelve directors, of whom four constitute a quorum, and who qualify upon a policy holding to the amount of $1,000. One-third of the directors retire annually, their successors being elected to hold office for three years. The election is by ballot and each policy-holder is entitled to one vote. The directors have each year appointed an executive committee, consisting of six directors and the manager, who is not a director.

Hon. Mr. Justice Britton and Hon. Mr. Justice Garrow were, at the date of the inquiry, members of the Board of Directors, the former being also Second Vice-President and a member of the executive committee.

The annual meeting is held on the first Thursday in March of each year. No less than one month's notice must be given by advertisement. The notice must also be printed on every renewal notice issued within twelve months preceding the meeting.

The practice has been to publish the notice in Toronto and local newspapers, to print it on renewal notices, and to insert it in Vancouver and Montreal papers, besides printing it on all policies.

Policy-holders may vote in person or by proxy, but their proxies must be filed with the manager at least ten days before they are used. Very few policy-holders attend the annual meetings in person, possibly from thirty to thirty-five, of whom the large majority (twenty-eight in 1906) are agents of the company.

Section 16 of the Dominion Act provides that—

> 'No director or officer of the company shall become a borrower of any of its funds, nor shall any officer, agent or subagent of the company receive, hold or use any proxy or proxies at the meetings of the company.'

A question arose in 1890 as to the right of the president and directors to hold proxies, and the opinion of Mr. Christopher Robinson, Q.C., was obtained. He considered that while the directors were in some sense officers of the company, yet, from the language of the clause quoted and other provisions of the Act, they were not to be regarded as coming within the term 'officers' used in the clause, and that, as the word 'director' was omitted from the clause, they were not within the prohibition. As the president and vice-president must be directors he saw no sufficient reason why they should not also be exempt.

The company has acted on this opinion, and, with the exception of a very few all proxies are held by directors.

The following statement shows the extent to which proxies have been used since 1898, before which date no record was kept:—

Year.	No. of Policyholders entitled to vote.	No. of Proxies.
1898	13,346	5,966
1899	14,435	5,730
1900	15,995	6,090
1901	17,283	6,405
1902	18,515	6 111
1903	20,079	7,246
1904	21,872	9,315
1905	23,581	8,848
1906	25,497	8,501

A printed form of proxy is sent out each year to persons who have insured during the preceding year. In it are printed the names of Robert Melvin, the president and some other director, and it authorizes either of them to vote at all annual and special meetings. A circular letter from the president is also sent asking for the signing and return of the proxy in a stamped envelope inclosed for the purpose.

Should the policy-holder object to the form submitted, or desire to appoint some other person another printed form will, on application, be sent him, in which is left a blank for the name of a single person, but it provides that in the absence of the person named, the president may act as proxy. It was stated that application had not been made for the second form on more than six occasions.

No information is given as to the names of other policy-holders entitled to vote. No application for a list has ever been made, and the manager was unable to say what attitude would be taken if such a request were made; he thought that in such a case he would ask the object of the applicant and would probably put him off until the next meeting of the board, but what attitude the board might take he was unable to imagine.

The result is that the voting power has been almost exclusively in the hands of the board and there has been very little change in its personnel except by reason of deaths.

In 1891 an agent procured enough proxies to elect himself. He was at once required to resign either his agency or his directorship, and went off the board. The director whom he had supplanted was elected in his place. Section 4 of the Company's Amending Act of 1894, 57-58 Vic., cap. 123, enacts that no agent of the company shall, while he is such agent, be elected or continue to be a director of the company, but its provisions are to have no force or effect until they have been approved by a vote of two-thirds of the members of the company at a special meeting. No such meeting has been held.

On one other occasion a person was elected against the wishes of the outgoing board. The intruder remained in office for one year only.

In 1895 the company strengthened the reserves by changing the basis of valuation from the Hm. Table with 4½ per cent to the Actuaries' Table with 4 per cent. On all insurance written during 1900, 1901 and 1902 the basis is the Hm. Table with 3½ per cent, and on all insurance effected since 1902, the Hm. Table with 3 per cent.

Prior to 1897 Mr. I. E. Bowman, M.P., was president and Mr. William Hendry, manager; their remuneration during the last year of office was $2,153.90 to the former, and $4,000 to the latter, making together $6,153.90.

In 1897, on the death of Mr. Bowman, Mr. Melvin was elected president. In the following year Mr. Hendry, who was in ill-health, resigned, and Mr. Wegenast was appointed manager in his stead. The minutes indicate that Mr. Hendry on his retirement was appointed consulting actuary, with an allowance of two-thirds of his pre-

vious salary. It appears, however, that he has not rendered any service to the company in that capacity, nor was it intended that he should. The wording of the resolution was due to the doubts the directors had as to their power to pension a retiring officer.

Since this change the remuneration of the president, manager and directors has been steadily increased, until in 1905 the president was paid $5,241.88, the manager about $6,900, including executive committee fees, and the remuneration of the board of directors, including president's salary, which in 1896 amounted to about $5,000, in 1905 amounted to $13,620.

In explanation of this increase it is pointed out that, during the period mentioned, the amount of insurance in force had about doubled, and the assets of the company had almost trebled.

The investment powers of this company have been specially dealt with from time to time by the Dominion Act of Incorporation and some of the numerous amending Acts: 52 Vic., cap. 96 (1891); 57-58 Vic., cap. 123 (1894); 63-64 Vic., cap. 112 (1900) and 3 Ed. VII., cap. 159 (1903), but the special powers of the company do not in any way exceed the general powers given by section 50 of the Insurance Act.

In practice the company has confined its investments mainly to municipal and school debentures, loans on policies and loans on real estate.

At 31st December, 1903, the company had made loans in advance of its receipts, and had an overdraft in the Molsons Bank, of about $200,000. To cover it up in the annual return the company arranged a pretended sale to the bank of certain municipal debentures amounting to $24,000, at cost. After the first of the year, the securities were to be returned to the company. In the usual course the company received considerable sums of money early in the month of January, 1904, and was able to take up these debentures without showing any overdraft.

THE CONFEDERATION LIFE ASSOCIATION.

This Association was incorporated by Act of the Parliament of Canada in 1871, 54 Vic., cap. 54, with an authorized capital stock of $500,000, and power to increase the same to $1,000,000. Ten per cent or $50,000 of the authorized capital was required to be and was paid up.

In 1881 the stock was increased to $1,000,000, and 10 per cent upon the increased capital was called up and paid out of profits or bonus, 6 per cent or $30,000 in 1881, and 4 per cent or $20,000 in 1886.

The statute was amended, 53 Vic., cap. 45, sec. 2, so as to prohibit in terms anything like centralizing of power, providing that no one person should hold at one time either directly or indirectly, or as trustee or otherwise, more than 500 shares of the capital stock.

By the Act of Incorporation policy-holders who were entitled to participate in profits were declared to be members of the Association, and there was a provision for their representation upon the board, the statute requiring that not less than one half the board should consist of shareholders, and not less than one-third of policy-holders. All the directors were required to be elected by the general vote of all the members, the qualification for a director being a holding of stock or participating insurance to the extent of $5,000, and each policy-holder whose policy amounts to $1,000 or upwards was entitled to vote.

There was no express prohibition against the use of proxies by policy-holders, but in practice the directors have never permitted any such proxies to be used.

The president of this company qualifies as a policy-holder and owns no shares.

The original powers of investment of the Association were somewhat less wide than those now found in the General Act, and the Association has, since the General Act assumed its present form, considered itself to have the powers conferred by the

General Act. As, however, the Association has never extended its business except into Newfoundland, Mexico and the West Indies, some of the important questions which arise in the case of other companies in respect of United States investments are not of moment in the case of this Association.

These original powers have been somewhat extended. Legislation with respect to them will be found in the latest of the two amending Acts, of which there are three; 37 Vic., cap. 88 (1874), 42 Vic., cap. 72 (1879), and 53 Vic., cap. 45 (1890).

There is an express prohibition against directors or officers borrowing the funds of the Association, or becoming surety for any borrower.

As the result of the amendments which have been referred to, the directors have power to charge holders of participating policies with losses, to the extent to which they have been credited with profits during the current quinquennial period, if the losses require it, but your Commissioners were informed that this power has never been made use of.

With regard to the division of profits, the directors are required to ascertain the part of the profits derived from participating policies, and to distinguish such part from the profits derived from other sources, and it is provided that the holders of participating policies shall be entitled to share, to the extent of not less than 90 per cent thereof, in the portion so ascertained and distinguished. It is also provided that the portion of such profits which shall remain undivided upon a declaration of dividend shall never be less than one-fifth of the dividend declared, and quinquennial distribution among participating policies is authorized.

In practice the method of ascertaining profits is said to have been as follows:—

(1) The rate of interest which the investments of the company have earned is ascertained yearly, and interest at that rate is first set apart out of the profits as being interest upon the paid-up capital stock.

(2) The balance of the year's surplus is then divided between participating and non-participating policy-holders, upon the basis of the respective share of each class in the reserve.

(3) The amount so found attributable to non-participating policies is carried to the credit of the shareholders' fund, along with the interest on capital.

(4) Out of the share so ascertained for participating policies, 10 per cent in former years, in later years 5 per cent has been taken out and carried to the credit of the shareholders' fund.

(5) The ultimate balance is treated as the allocation to which participating policy-holders are entitled.

A very large portion of the business of this company is written upon the deferred dividend system. The method which has obtained of dealing with policies of this class has been peculiar, and in the opinion of your Commissioners has not been in accordance with the terms of the policy contract, or with the fundamental principles upon which this species of contract is founded. When a given number of policies have attained contemporaneously their tontine period, the profits arising out of lapses in the original class of which they were members have been treated as belonging, not solely to those of the same class completing the period, but generally, though provisionally, to all deferred dividend policy-holders then alive, irrespective of when their deferred dividend period may arrive. For example, if one hundred persons insure in 1885, with a 15-year period maturing in 1900, and if fifty lapse, the benefits arising from such lapse are not divided among the survivors of the hundred, but are provisionally divided among all persons holding tontine policies who are then alive, without reference to the date of insurance and without reference to the completion of the period.

In 1896 the association, which was then maintaining its reserves upon a 4½ per cent basis, made a change in respect of new business to be subsequently written, providing in respect of such business for a reserve upon a 3½ per cent basis.

After the statute prescribed a change in the rate upon the basis of which reserves were to be maintained, the association made a further provision, in respect of new business from that date forward, placing reserves in respect of such new business upon a 3 per cent basis.

The result is that, in respect of business prior to 1896, the reserves are now maintained upon a 4½ per cent basis; that in respect of business written between 1896 and 1899 the reserves are upon a 3½ per cent basis, and that in respect of business written since 1899, the reserves are upon a 3 per cent basis.

The management of this association has been practically in one hand for many years, the managing director, Mr. J. K.Macdonald, having very wide powers, and exercising them with the practical effect of control. He has treated himself as being authorized without specific authority in the particular instances from his board, to enter into transactions of great importance. His language (speaking of loans upon unauthorized securities), is as follows. (Page 848.)

> 'Q. I would not expect you to recall everything, but was it customary for transactions of that kind to go through without appearing on the minutes of one of your committees?—A. They would all go upon the records. They would enter into the statements that were submitted from time to time.
>
> 'Q. Was the propriety or impropriety of making loans upon such securities as we have been speaking about ever discussed at your board meeting?—A. Never.
>
> 'Q. What was the position there with regard to matters of that sort, would the loan be made first and the attention of the committee be called to it afterwards?—A. The loan might be made and then it would appear in the statements as so much on loans on stocks or bonds, whatever it might be, reported through the cash statement.
>
> 'Q. You would consider it to be within your power as managing director to carry through a transaction of that sort and report it subsequently, rather than to take authority for it first?—A. Oh, I would consider myself authorized to carry out the transaction of a loan of that kind. That authority is supposed to be exercised by me just the same as the cashier of a bank would.'

Mr. J. K. Macdonald's shareholding at the time of the inquiry was 379 shares. His son, Rev. D. B. Macdonald, had 30 shares, another son, Mr. C. S. Macdonald, 25 shares, a daughter, Miss C. H. Macdonald 45 shares, a daughter-in-law, 10 shares, besides 200 shares which Mr. J. K. Macdonald says he transferred, 100 shares to his son, C. S. Macdonald, and 100 shares to the actuary of the company, Colonel W. C. Macdonald, and as to which he states that Colonel W. C. Macdonald is the beneficial owner.

Roughly, he says, the shareholders' proxies, made out to and held by himself and the president on behalf of the management, represent approximately 2,000 shares.

In 1891 Mr. J. K. Macdonald was in receipt of a salary of $12,000, which was continued to the year 1900 without any increase. In the last named year he received a bonus of $2,000, applicable to the business of the year 1899. In 1901 his salary was increased to $13,000, and in that year he received a further bonus of $1,000. In 1902 his salary remained at $13,000. In 1903-4-5 his salary was $14,000, with a bonus of $1,000 in 1905.

In 1901 Colonel Macdonald, the actuary, was in receipt of a salary of $2,500. In 1892 it was raised to $3,000. From 1893 to 1898, inclusive, it was $3,600. In 1899 and 1900 $4.200, with a bonus of $500 in 1900. In 1901 it was $4,500, in 1902, $5,000, in 1904, $5,500, with a bonus of $500. In 1905, $6,000, with a bonus of $500.

Down to and including the year 1898, the favourite investments with the management of this association were municipal debentures and mortgage securities. In the year 1899, however, the company seems to have become infected with the desire to enter upon the more speculative field of investment offered by bonds and stocks, and

in that year they purchased Commercial Cable bonds to the extent of $15,000. In 1900, $10,000 more of these bonds were acquired, and Bell Telephone Company bonds, to the extent of $9,000, were also acquired. In the same year, the bonds of the Quebec Harbour Trust were purchased to the extent of $75,000, and bonds of the Toronto Hotel Company to the extent of $10,000, with which came $1,000 of bonus stock. In 1901 further purchases of Bell Telephone Company's bonds were made, to the extent of $25,000 in July, and $8,000 in December. In that year also $25,000 of Toronto Electric Light Company bonds were purchased.

It was in this year also that Mexican Government bonds to the extent of $20,000 were purchased, having regard to the extension of the business of the Association into that country. In this year also the Association purchased Calgary and Edmonton Land Company's bonds, to the extent of $45,000.

It is fair to the management of the Association to point out that the powers conferred by the amendment made to the General Act in 1899 were supposed to have considerably widened the range of legitimate investment, and it would appear in respect of all the investments that have been mentioned, with the exception of the Toronto Hotel Company's bonds and the Calgary and Edmonton Land Company's bonds, that the investments were well within the power conferred by the legislation of 62 and 63 Vic., cap. 13 (1899). With regard to the purchase of the bonds of the Toronto Hotel Company, the management seems rather to have been inspired by a feeling of public spirit in connection with the interests of the city of Toronto than by any desire to make a profitable investment, and with regard to the Calgary and Edmonton Land Company's bonds, the investment was thought to be justified on the ground that these bonds covered the real estate of the colonization company, and were, therefore, the equivalent of mortgages upon real estate.

In 1903 the Association made two purchases of bonds, which were not, your commissioners think, in any view within the competence of the Association. Those investments were in Nova Scotia Steel and Dominion Coal bonds. The amounts expended in these investments were not large, being $9,000 and $7,500 respectively, par value, purchased for $10,017.25 and $8,281.57 respectively. These securities were made to do duty in certain transactions which fell to be considered at the end of 1904 and the beginning of 1905. During 1903, Montreal Light, Heat and Power debentures were purchased to the extent of $75,000. In 1904 Mexican Gold bonds were purchased to the extent of $100,000, and Victoria Rolling Stock Company bonds to the extent of $73,000. In 1905, Winnipeg Electric Railway Company bonds were purchased to the extent of $121,000, and Niagara Falls Park and River Railway bonds to the extent of $50,000. In 1903-4-5 Canadian Pacific Railway stock was purchased to the par value of $180,000, and a profit was made upon the realization of this unauthorized security to the extent of over $68,000.

It is further to be observed that, with the Mexico Government silver bonds purchased in 1902, $20,000, and the Mexican Government silver bonds purchased in 1904, $100,000, the powers of the Act in respect of investments in that country seem to have been exceeded. This is sought to be justified upon the construction of section 50, subsection 3 of the Act of 1899. Your Commissioners, however, are not able to concur in the proposed construction by which it is sought to make the power to invest in Mexican securities unlimited in amount.

Prior to the alteration of its policy in respect of investments as mentioned above, and the turning attention towards stocks and bonds of a more or less speculative character, the management had never anticipated its means in the making of investments. The alteration of policy, however, perhaps because it involved the necessity for large transactions in order to secure large anticipated profits, provided the occasion for breaking through this salutary rule, and your Commissioners find a series of transactions, to which brief reference has already been made, involving among other securities the Nova Scotia Steel Company's bonds and the Dominion Coal Com-

pany's bonds referred to above, which partake largely of all the evils attendant upon speculation upon margin.

In October and November, 1904, the management authorized Messrs. Osler & Hammond to purchase for the Association 610 shares of Consumers Gas stock. Mr. Osler was a director of the Association. Certain moneys seem to have been paid on account of the purchase price by the Association to Messrs. Osler & Hammond, leaving a balance due of $27,041.14, which it was necessary to pay in order to obtain a release of the shares.

It was arranged that Osler & Hammond should hand over 500 shares out of the 610, retaining 110 shares, the value of which, at the price at which the transaction was carried through, was $11,578, and receiving at the same time the Nova Scotia Steel bonds, $9,000, and the Dominion Coal Company bonds, $7,500. Messrs. Osler & Hammond then held as security for the debt of $27,041.14, the three securities: Consumers Gas stock, 110 shares, $11,578; Nova Scotia Steel, $9,000; Dominion Coal, $7,500.

In December, 1904, Messrs. Osler & Hammond were further instructed to purchase the Mackay Company's stock, and did so, paying $28,033.62, for 373 shares. On the 31st December a transaction was arranged between the Association and Messrs. Osler & Hammond, by which the Association paid Messrs. Osler & Hammond $8,400, and were handed over 150 shares of the Mackay stock. This left a debt outstanding in respect of the remaining 223 shares of Mackay stock as follows:—

$28,033.62, amount necessary to release 373 shares	
8,400.00 paid for the release of 150 shares.	
Balance, $19,633.62, necessary to release remaining 223 shares.	

According to the books of Osler & Hammond, this transaction was consolidated with the previous transactions in respect of Consumers' Gas stock. The matter seems to have taken this shape :—

Balance due in respect of Consumers' Gas purchase	$27,041 14
Amount due in respect of Mackay purchase	28,033 62
Total	$55,074 76
Less paid on December 31	8,400 00
Balance	$46,674 76

then due Messrs. Osler & Hammond, who were carrying 110 shares Consumers' Gas, $9,000 Nova Scotia Steel, $7,500 Dominion Coal and 223 shares Mackay's.

The transaction was further involved by the interchange of fictitious cheques between Messrs. Osler & Hammond and the Association, each cheque being for $44,100, the Osler & Hammond cheque purporting to be,

for Nova Scotia Steel	$ 9,719 33
for Dominion Coal	8,100 27
for Calgary & Edmonton Land Co. bonds	27,680 40
Total	$44,100.00

and the cheque of the Association purporting to be for Consumers' Gas

stock	$ 40,386 60
for Mackay's stock	3,731 40
Total	$ 44,100 00

These cheques had no reality, nor had they any place in the real history of the transaction. The manifest intent with which the exchange was arranged was

that Osler & Hammond should appear to have purchased the Nova Scotia Steel, the Dominion Coal and The Calgary & Edmonton bonds, so that these unauthorized securities might disappear from the assets of the Association in the Government return, and that the Association might appear to have purchased outright the Consumers' Gas stock and Mackay's stock to the amounts named.

This enabled the Association to conceal in its return altogether the circumstance that it had been purchasing upon margin, and that in respect of the margin transactions they owed a large sum of money to Messrs. Osler & Hammond, for which the unauthorized securities were pledged.

Mr. J. K. Macdonald, at page 859, says:—

Q. Let us sum up, because then it goes to the Mackay preferred on the same day; that would indicate, according to their showing in their own account, that you owed them $55,074.76, that when that was paid you would be entitled to get 110 Gas, 373 Mackay, $9,000 of Nova Scotia and $7,500 of Dominion Coal?—A. That is what it is.

Q. Then I see that on the same day according to this account, you gave them a cheque for $8,400, and took over delivery of 150 shares of the Mackay?—A. I presume so.....

Q. You have 150 of your 373 of Mackay's and the ywere holding 223 shares?—A. Yes.

Q. And that 223, like the 110 Gas and the Nova Scotia and Dominion Coal did not find its way into the return to the Government?—A. No, because it was not ours.

Q. It had been purchased for you, you owed this money on account of it; at all events that was the fact; we won't stop to differ about that at present?—A. Yes, but the present is the time to deal with it, and the present is these were not purchased for that year's account. We instructed them to purchase so many of these shares, and we simply took them up when we were ready to take them up.

Q. You had acquired a right and you had paid money for them?—A. Not for these that you refer to.

Q. You had partly paid, you know?—A. Certainly, but not for these particular shares you now refer to.

Q. Yes. There was no distinction made in your payments between any one block of a particular stock and any other?—A. I fail to see what point you want to make out of it.

Q. I am not trying to make out any point, I want to get out the facts?—A. There is the fact that these were to be taken up when we wanted them to be taken up, and had the money for them; if we had put them in on the one side then we would simply have to offset it. I fail to see what difference it makes to the Government statement or any other statement.

Q. Are the dealings which appear in this account between the 4th January, 1905, and the 13th, real dealings all right?—A. I presume so.

Q. Apparently they collected coupons on the Nova Scotia Steel and Coal Company, amounting to $270?—A. Yes.

Q. Apparently you gave them that cheque for $20,000 on the 5th January?—A. I presume that is correct.

Q. And they collected dividend on the 373 shares of Mackay?—A. Yes.

Q. Amounting to $373, and on the 12th January you gave them a cheque for another $10,000?—A. Apparently.

Q. Then there was some interest charged up, and then on the 13th January they carried down a balance of $21,101.08 against 110 Gas, 223 Mackay, $9,000 Nova Scotia and $7,500 Dominion Coal?—A. Yes.....

Q. The releases took place in January; however I do not think that is very material; at all events that $21,101.08 was paid?—A. Yes.

Q. And it was paid about that time?—A. It was paid along in January apparently.

Q. I want to ask you what you did with these various securities which would then become released?—A. Took them over.

Q. The Consumers' Gas went into its appropriate place as a security in your books?—A. Yes.

Q. The same with the 223 Mackays?—A. Yes.

Q. What about the Nova Scotia and Dominion Coal; where did those go?—A. They would simply come back into the securities again, they were afterwards sold.

Q. I am told they came back into a suspense ledger.—A. I do not know personally, but I see the actuary nods his head, that is correct.

Q. They had not been in the Government return at the end of the previous year?—A. No.

Q. And they did not appear in any subsequent Government return, because they were sold during that year 1905?—A. Yes.

Q. If these were not sold in 1905, is it possible in your view to justify keeping them out of the Government returns, and if so upon what ground?—A. If we had held them at the end of 1904—I have already explained that we supposed these bonds were actually out of the ownership of the company in Osler & Hammond's hands when they came back if we had had them as securities of the company at the close of 1905 they would have gone into the Government report.

Q. In 1904, as a matter of fact upon what subsequently developed, whether you are aware of it at the time or not, they were not securities which had passed out of your hands, they were securities which had been put in your brokers' hands to sell, and which he had not sold?—A. That is true. I cannot give any other explanation than I have already given in regard to it.

Q. I want to get the position from every possible standpoint, and if there is a point that can be made in favour of it, I want to have that just as well as a point against it. When you say you were under the impression that they were actually sold, do you mean to say you were under the impression that Osler & Hammond, prior to the 31st December, had actually disposed of them for you?—A. No, they had not; we supposed that they would have sold them and for that reason—we had an unsettled account with Osler & Hammond at the close of that year, into which these securities entered, and they were not put in the report for that year, I presume, under the supposition that they would be sold and were actually out of the hands——

Q. But not under the supposition that they had actually been sold?—A. No, they were not actually sold.

Q. Supposing they would be sold, but knowing they had not actually been sold, do you think still you were justified in keeping them out of the government returns?—A. I think under the circumstances there was justification for it, because they entered into the unsettled account that was in Osler & Hammond's hands.

Q. Of course the Osler & Hammond account, upon the omission of this security from the return, was also omitted as a liability?—A. Yes.

Q. So that neither did these securities appear as an asset, nor did the debt appear as a liability?—A. Let me admit at once that these things under the circumstances ought to have gone into the government report. That is all.'.....

With regard to the crossing of the two cheques for $44,100 (Page 861):—

'Q. Under what arrangement were those cheques exchanged?—A. I am unable to say there was any arrangement.

Q. Did you make the arrangement?—A. I do not know that I did, that I made the arrangement, they gave us the arrangement—I do not think as a matter

of fact that I did personally make any arrangement of this kind, or arrange for the cheques.

Q. You do not remember?—A. I am almost positive that I did not.....

Q. Of course it goes without saying that this cheque was not that accounting, the accounting was, as we have seen from the books, as they entered the transaction from time to time; the cheque in other words was a mere matter of form and had no substance as applied to the real transaction.—A. I really cannot speak decidedly, I only know the figures as facts that are before us.

Q. We have gone through the real transaction as carefully as, with my imperfect knowledge of them, I could?—A. Yes.

Q. And we have traced the real transaction through the books with real cheques, which passed from time to time, indicating the transactions which afterwards took place?—A. Yes.

Q. These cross cheques have no place in that history?—A. I think they have; for example, we have here the proceeds of the sale of the Calgary and Edmonton bonds; has not that some part in it; that is a bona fide transaction.

Q. That was a bona fide transaction, and was settled in reality, not by those at all, but by the dealings which we have gone through?—A. All I can say is, this is the proceeds that is entered in here, on which they have given the cheque, and they give a cheque apparently for the other amount.

Q. You have a cross cheque?—A. Here is the cheque which had been given to them for the amount.

Q. I know I am not putting it lucidly to you at all, but I want you to follow me if you can. The transactions we have been going through from the books of Osler & Hammond, supported by your own books, indicate what was really done in connection with all those matters?—A. I think so.

Q. And in that history which is taken from Osler & Hammond's books there is no mention of these cross cheques?—A. They must have given their cheque for it.

Q. They gave that cheque, that is part of the history of it, but that cheque has no place in the historical account of your dealings in these securities?—A. I do not know as to that, I do not know how they treated it. Here is the way in which it was treated by us in the office. (Produces cheque).

Q. You will observe that that indicates that they were buying out on the 30th December which is the date of the cheque, the Nova Scotia Steel and Dominion Coal?—A. That is wrong.

Q. They were not buying them out?—A. No, they did not buy them out.

Q. Can you tell me whether the crossing of those cheques in that way was made for the purpose of supporting the Government return—I do not want to put it offensively?—A. I do not think it was, I do not see how it could have been at this date.

Q. You see the result of it was you were able to keep out of the Government return the Nova Scotia and Dominion Coal and Calgary & Edmonton; you were enabled to put into the Government return the Consumers' Gas and Mackay, although as a matter of fact you did not discharge your obligation in respect of those until the following January?—A. As a matter of fact these were sold and we had their cheque for it, which was included in their cheque of $44,000.

Q. No, that was an assumed amount, $26,280, and the real proceeds were $25,793.33?—A. But that probably includes the interest, so that, so far as this cheque is concerned, to the extent of the proceeds of the sale of the Calgary & Edmonton bonds, that was a real thing entering into cheque.

Q. With the interest it is $26,344.64?—A. I take it that shows the interest upon those bonds.

Q. And excluding interest they were charging, it is only $25,431 instead of $25,793. I am not able to see how that $26,280 can be made to tally with the real

entry?—A. I cannot tell you, Mr. Shepley, I am only supposing it may include the interest.

Q. You were not, by receiving that cheque and giving your cross cheque, intending to allege as against Osler & Hammond that they became the purchasers of those two——?—A. We did not allege that.

Q. You did not intend to when the cheques were passed?—A. No.

The management has since 1891 had certain loans on call. In many cases the securities upon which the loans were made were unauthorized. Among them were the following stocks:—Dominion Coal; Canadian Pacific Railway; Sun Life; Temperance & General Life; Manufacturers' Life; Manitoba & North West Land Company; General Electric; Nova Scotia Steel, and there were borrowings upon the stock of the company itself which is prohibited.

Mr. R. S. Baird, who is the Toronto agent for the Association, seems to have been carried upon margin by the Association in his small dealings in Dominion Coal Company's stock, 50 shares of which he pledged for a loan from the Association.

The management of the Association was manifestly aware of the impropriety of the loans made upon the Association's own stock. Accordingly we find that in the case of these loans they were got out of the way regularly on the 31st December, and put on foot again on the 2nd or 3rd January, thus suppressing their existence in the Government return.

The Association has loaned money to the Managing Director upon his policy of insurance upon his life, and has also loaned money to the actuary, Col. W. C. Macdonald, upon the pretext of an advance against unearned salary.

THE FEDERAL LIFE ASSURANCE COMPANY OF CANADA.

This company was incorporated in 1874 by an Act of the Legislature of the province of Ontario, 38 Vic., cap. 68, under the name of 'The Industrial and Commercial Life Assurance Company of Canada,' to carry on the business of life insurance and do things pertaining thereto in "the province of Ontario and elsewhere." By an amending Act passed by the same legislature in the following year, 39 Vic., cap. 1, the name of the company was changed to 'The Industrial and Commercial Life Assurance Company of Ontario,' and so much of the Act of Incorporation as purported to empower the company to carry on the business of life insurance elsewhere than in the province of Ontario was repealed. Subsequently by an order of the Lieutenant Governor of Ontario in Council, of April 11, 1882, the name was again changed to "The Federal Life Assurance Company of Ontario."

Before the company had in any way undertaken the business of life insurance, its charter was purchased from the original incorporators by David Dexter, now president and managing director of the company, who proceeded to obtain subscriptions for stock. In 1882, the company was organized for business, and on making a deposit of $50,000 with the Receiver General of Canada, obtained a license to carry on life insurance business throughout Canada. Thereafter the company carried on business without further alteration of its charter powers until 1898, when it was reincorporated under the name of "The Federal Life Assurance Company of Canada," by Act of the Parliament of Canada, 61 Vic., cap. 103.

The authorized capital of the company has always been $1,000,000, of which $700,000 was originally subscribed. The first call was 10 per cent, producing $70,000 of paid up capital. In 1885, an additional call of 3 per cent on the subscribed capital was made, and on November 1, 1900, the balance of $300,000 capital stock was issued at a premium of $5.20 per share, in addition to the 13 per cent call thereon. The amount of paid up capital still remains at $130,000.

Prior to 1897, no dividends were paid to shareholders. From 1897 to 1900, inclusive, the dividend was 6 per cent, and in 1901 it was raised to the present rate of 8 per

cent per annum. It was stated that the additional issue of capital in 1900 was not made because additional capital was required but to give the company greater stability. The premium was added to assist the company in overcoming an impairment of capital, and was justified on the ground that it equalized the new stock with the old, upon which no dividends had been paid prior to 1897.

In early years no single shareholder, nor any group or set of shareholders combined either by relationship or common interest, had control. To prevent control falling into any one hand, an agreement was made on December 20, 1897, between the following directors and officers of the company, W. Kerns, first vice-president, Dr. A. Burns, second vice-president, Dr. A. Woolverton, medical director, Rev. Dr. John Potts, director, David Dexter, managing director and Thomas C. Haslett, solicitor, whereby they agreed to form a joint fund, for the purpose of acquiring further shares (not exceeding 1,200, without the further consent of the majority of the parties), for their joint benefit. All shares acquired, the dividends thereon, and the voting power with all privileges attaching thereto were to be the joint property. No individual interest could be disposed of without the common consent. On the same date the same parties with James H. Beatty, president, and Rev. John G. Scott, a director, further agreed upon a pooling and option arrangement. After the additional $300,000 capital had been issued and offered to the shareholders 1,162 shares were unsubscribed, and a further agreement was made for the acquisition of further shares on joint account. By the addition of shares acquired under these agreements to their other holdings, these parties have had control of the company since 1900, holding at the date of the inquiry in their own names either individually or in trust, and in the names of members of their families, 5,117 shares out of the whole capital of 10,000 shares. The managing director has also for some years held proxies entitling him to cast about 1,000 additional votes at general meetings of the company.

In 1890 the capital after allowing for the reserves on outstanding policies had become impaired to the extent of about $40,000, and to lessen the impairment the following payments were then made by the directors named:—

James H. Beatty	$10,000
Dr. M. H. Wilson	10,000
Dr. M. H. Aikins	2,000
W. Kerns	2,000
Total	24,000

On March 4, 1890, certain shareholders agreed with these directors to guarantee the repayment of these advances with interest at 6 per cent per annum, one-half in one year and the balance in two years, and they further authorized the payment over to them of all the bonuses, dividends and profits accruing on the guarantors' shares. The understanding was that the directors' advances should really be repaid by the company but the agreement was intended to prevent their being shown as a liability of the company, and to conceal the impairment of capital.

The receipt of the $24,000 was shown in the annual return for 1890 under the heading 'Shareholders' Contribution, $24,000.' The superintendent of Insurance appended to the return a foot note referring to the agreement of March 4, 1890, but does not seem to have been aware of the real understanding behind it, that the company should eventually make the advances good.

From 1891 to 1895, inclusive, a similar foot note was appended to the return, except that in 1894 and 1895 a reduced amount was stated, payments having been made on account.

The company paid its president in 1891 and following years a bonus equal to the interest at 6 per cent on the amount of the advances remaining unpaid from year to year, and in addition various sums in different years between 1893 and 1894, making in all $24,000, and all the bonuses were applied towards satisfying the advances. Besides the bonuses and the usual directors' fees the president received no remuneration

during the years in which the advances were repaid. On February 4, 1897, a release executed by those directors who then were entitled under the agreement of guaranty. It acknowledges due payment and satisfaction of all claims, released and discharged the guarantors, and declared the guaranty void.

Copies of the agreement and the release were verified by the statutory declaration of David Dexter, the managing director, and were forwarded to the superintendent. The important paragraph of the declaration is the 3rd:—

> '(3.) No liability on the part of the said The Federal Life Assurance Company of Ontario now exists—if ever any did exist—for the payment of said moneys or any part thereof to any person or persons whomsoever.'

It appears that upon the date of the release an agreement was made in terms very similar to the old agreement of guaranty then released between a lesser number of guarantors, lesser number of new agreement was obtained because of a change in the personnel of the contributors entitled to receive the money and in order that new shareholders might assume the obligation, but it seems reasonably clear that the real object of the release was to obtain the sanction of the superintendent of insurance for omitting from the company's return the foot note above referred to, while the object of the new agreement was to restore the contributors simultaneously to the position which the superintendent of insurance was asked to believe had been abandoned.

The company in the early years of its existence, on the advice of Mr. Sheppard Homans, an eminent actuary of his time, wrote considerable renewable term insurance, to obviate the necessity of showing as a liability the large reserves necessary in level premium insurance. The term policy was attractive at the younger ages because of it cheapness, but as the rates increase on each renewal term dissatisfaction naturally results. Not enough care was taken when soliciting the class of business to make its features clear, and some of the literature circulated had a misleading tendency, and there were extravagant estimates of profits. The attempts of the company to induce a transfer to the level premium plan naturally emphasize the general dissatisfaction because they disclose the small value of the term policy when burdened by the lien necessary to make good the difference in premiums. These attempts have not been very successful and have produced much dissatisfaction.

The company's premiums before 1900 were low and its estimates absurdly high. It is fair to say that both were fixed to meet competition, rather than as the result of any bona fide actuarial calculation. In that year changes were made in both premiums and estimates, but the latter were still in excess of anything the company might reasonably expect. Some glaring examples of misleading estimates were given in evidence. For example, on a 20-year endowment policy at age 31 the company estimated profits before 1892 at $1,022.00 and in 1900 at $511, while the actual profits realized in 1902 were only $214.58. On a 20-payment life policy, age 43, the estimated profits before 1892 were $1,011.63, and in 1900 were $514, while the actual results in 1902 were $226.03.

The original Act of Incorporation, under which the company carried on business from 1882 to 1898 contained broad powers of investment. By section 23 of that Act it was provided that, besides the public securities of Canada and the Provinces, the company might invest in

> 'the stocks of any chartered banks or building societies or in the bonds or debentures of any incorporated city, town or municipality authorized to issue bonds or debentures, or in mortgages on real estate or in such other securities and in such manner as the directors may elect.'

The powers of investment under its Dominion Act of Incorporation were much more restricted than under its provincial charter and the company has always entertained the view, which seems to be correct, that since the passing of that Act it has no wider powers of investment under its special Act than are granted to all companies by section 50 of the Insurance Act.

By section 18 of the company's Dominion Act of Incorporation it is provided that the Companies' Clauses Act, except sections 18 and 39 thereof, shall apply to the company. This renders the company subject to section 38 of that Act which prohibits loans to shareholders.

The following investments of the company seem to require special mention.

On 11th October, 1902, the company advanced to David Dexter, the Managing Director, $5,831.25, and on the 15th of the same month a further like amount, being the purchase price of 50 shares of Bank of Hamilton stock at 233, which Mr. Dexter then bought and pledged to the company. The advances were subsequently approved by the Executive Committee to the extent of $11,150 and the sum of $512.50, being the amount necessary to reduce the advances to the authorized amount was paid to the company by Mr. Dexter on October 28, 1902. On August, 31, 1903, the company advanced to Mr. Dexter a further sum of $1,110, with which to take up 6 shares of a new allotment issued by the bank at 185, and on March 24, advanced $5,775 with which Mr. Dexter purchased 28 other shares of Bank of Hamilton stock at 206. The Superintendent of Insurance having objected to this loan the account was closed on June 17, 1904, by crediting to Mr. Dexter the amount then due thereon, but the amount so credited was at the same time charged in the company's books to G. E. McLaughlin, Mr. Dexter's son-in-law, to whom the shares were transferred and held by him as trustee for Mr. Dexter, subject to the pledge to the company, the transaction that then took place being a mere matter of bookkeeping. The loan was ultimately paid off in June, 1905.

Dr. A. Woolverton, medical director of the company, borrowed $1,000 on the security of 10 shares of the Landed Banking and Loan Company's stock, valued by the company in its books at $1,200. The loan was made on March 15, 1894, and was paid off on March 10, 1904. He also borrowed $4,650 on July 13, 1904, on the security of 50 shares of the Hamilton Cataract Power, Light and Traction Company, Limited, valued in the books of the company at $5,000. This loan was paid off on 15th April, 1905.

Hugh Murray, a director of the company, borrowed $700 on February 28, 1905, on the security of 41 shares Hamilton Masonic Hall Company and 10 shares of the capital stock of the Aid Savings and Loan Company. The loan was paid off on December 28, 1903.

Two loans on real estate, one to John Wakefield and the other to William Kerns, both directors of the company, were made on what appeared to be reasonable security and both were paid off in due course.

A loan was made to Thomas C. Haslett, solicitor of the company, acting on behalf of clients, amounting to $12,000 on the security of 160 shares of Canadian Westinghouse stock. The advance was made on April 19, 1905, and was repaid in instalments ending November 5, 1905.

A small loan of $200 was made to W. H. Rae on the security of 50 shares of the insurance company's own stock. Mr. Rae was an agent of the company and the transaction seems to have involved the taking by the company of the shares in question as security for advances made to him on account of commissions to be earned.

The company at different times held certain unauthorized investments, including 200 Hudson Bay shares, bought February 19, 1903, and sold April 4, 1905, at a profit of about $35,000.

The company also purchased Sao Paulo Tramway bonds, amounting to $25,000 in 1903, and two lots of $25,000 each in 1904. They were sold in 1905 on objection taken by the superintendent of insurance, at a profit of about $3,000.

The company made a loan of $38,000 on several stocks, included in which were certain shares in the stock of life insurance companies and 100 shares of the Dominion Iron and Steel Company. It was claimed on behalf of the company that the loan was really secured by shares in the Brantford Electric Light and Power Company's stock, London and Canadian loan stock and certain policies of insurance, which were

proper and sufficient security, and that the unauthorized securities were taken as additional security merely.

This company has in process of erection in Hamilton an office building which will be eight storeys high, and which, it is estimated, will cost $250,000. The president stated that he believed the company will receive in rentals 4 per cent interest on the moneys invested, charging the company itself a reasonable rental for the portion of the building occupied by it. He was not prepared to say, however, what rental the company would be charged and he admitted that the investment must be in part justified on the ground that the building would be a good advertisement. It was stated that the present head office building in Hamilton is altogether too small for the company's requirements. It is not yet sold, but it seems to be anticipated that there will be no difficulty in selling it for at least the cost thereof, about $18,000, as soon as the new building is ready for occupation.

THE LONDON LIFE INSURANCE COMPANY.

This company was incorporated in 1874, by Act of the Legislature of Ontario, 37 Vic., cap. 85, to carry on life and accident insurance. The capital originally authorized was $100,000, which the company was empowered to increase to $500,000. The capital originally subscribed was $112,500, upon which 20 per cent, or $22,500 was paid. On March 21, 1877, the capital subscription was increased to $223,000, and on February 25, 1881, by means of a 5 per cent call the paid-up capital was raised to $33,650. In 1884, the company was reincorporated by Dominion Act, 27 Vic., cap. 89. This Act authorized the business of life insurance but not that of accident insurance, except to the extent necessary to wind up and complete business already undertaken. By section 24, the "Canada Joint Stock Companies Clauses Act, 1869," except section 39 thereof, was made part of the Act. This section was regarded as objectionable, because section 18 of the Companies' Clauses Act required 10 per cent of the subscribed capital to be paid in each year, until paid in full. It was not intended to require or even permit the capital to be paid in full, and the company obtained, in 1885, an amending Act, 48-49 Vic., cap. 94, repealing section 24 of the Act of 1884 and substituting a new section, excepting sections 7, 8, 18, 24, 39 and 44 of the Companies' Clauses Act. Certain further provisions were made as to levying assessments on shareholders, to which reference will be made hereafter.

From 1874 to 1885, the company carried on business exclusively in the province of Ontario, but after the passing of the Act of 1885 it procured a Dominion license, and commenced business thereunder.

By the Act of 1884 the authorized capital was made $1,000,000, divided into 10,000 shares, of which 2,230 shares were to be those already issued upon which the sum of $33,650 had been paid. Subsequently, on December 3, 1891, and September 6, 1894, there were further subscriptions of capital, of $2,000 and $25,000 respectively, the latter increase being at a premium of $4 per share. This made $250,000 in all, being the present amount of subscribed capital. By subsequent calls the whole of the capital was put upon a 20 per cent paid up basis, so that the capital subscribed is now $250,000, and the capital paid up $50,000. More than one-half the stock is held by the widow and family of the late Joseph Jeffrey, who was president until 1894.

Prior to 1883 the company issued non-participating policies only. To remove any doubt, the Dominion Act of Incorporation authorized the granting or apportioning among policyholders all or any portion of the profits after payment to shareholders of such portion thereof, or of such interest upon paid-up capital or such percentage or commission upon the amount of insurance effected as should be deemed proper. In the amending Act of 1891 authority was given to establish distinct classes or branches of insurance wholly or partially upon the mutual principle, and to keep separate accounts of business transacted in such classes or branches—each class or branch sharing its own profits and paying its proper proportion of expenses.

By the Act of 1884, authorizing participating insurance, it was made competent for the shareholders to add to the board such number of policy-holders' directors as might be fixed by by-law. Their election by the holders of participating policies was provided for; their qualification as well as the voting qualification prescribed, and their powers declared to be the same as those of ordinary directors. The policy-holders now elect three directors, and the shareholders six, making in all a board of nine. One of the three present policy-holders' directors is also a shoreholder and another, Archibald Bell, is the judge of the county court of the county of Kent.

When participating insurance was decided upon, there was a very large impairment of capital amounting to about $20,000 out of the then paid-up capital of $33,650. It was essential to the new venture to make the impairment good. It was recognized that an unimpaired capital was implied in the very term 'profits,' whether paid to shareholders or to policy-holders. It was in this view that the Act of 1884 provided for the issuing of preference shares at a premium, but this means of relief was not adopted.

By the Act of 1885 a much more drastic remedy was given. Impairment was permitted to be made good by compulsory assessment upon the shareholders over and above all calls, with the power to sell so much of the holdings as might be necessary to meet the levy in case of default, and the transfer of shares upon which any assessment was unpaid was prohibited, and the assessments were only permitted to be refunded when that was possible without leaving any impairment and without encroaching upon policy-holders' profits. It was stated that all the shareholders consented in writing to this plan. Two special assessments were levied, one on November 3, 1885, of $9 per share, yielding $20,070, and the other on November 29, 1889, of $4 per share, yielding $8,920. The first made good the impairment then existing, and the second was made perhaps before an actual impairment, but in anticipation of losses on the realization of certain assets which involved impairment.

The company commenced paying dividends to shareholders in 1886, and has paid a dividend each year since, except in 1889, at 7 per cent until 1895, at 8½ per cent from 1896 to 1899 inclusive, and at 8 per cent since 1900. In 1889 no dividend was paid, that being the year in which the assessment of $4 per share was made. The dividend was formally declared, but was retained to assist in making good the losses. In 1894 the amount of the dividend passed in 1889, with interest, was credited in a special shareholders' fund created for the purpose of repaying the assessments which had been levied. This fund was the source of the increase from 7 to 8½ per cent in the dividends, but it was absorbed and disappeared in the change made from 4½ to 4 per cent in the valuation of policies.

Industrial insurance, which is about half the whole business of the company, commenced to be undertaken four years before the Act of 1891, which authorized the establishment of distinct branches, wholly or partially upon mutual principle, and has since been continued under the confirmation of authority which that Act was supposed to effect, so far as the partial application of the mutual principle to the company's industrial methods is concerned. At December 31, 1905, 55,624 industrial policies were in force, insuring $4,597,132, and with a weekly debit of about $5,000.

It was stated that the industrial business had been built up gradually, the object being to establish branches in a limited number of places and extending over moderate areas. Prior to 1900, when it became compulsory to complete reserves on new business at 3½ per cent, the business had cost about 65 times the weekly debit, and it was on a paying basis after about the third year.

As industrial premiums are collected by personal canvas, the business tends to become personal to the agent, and it is of importance that agency should be permanent. In 1895 this company and the Metropolitan Insurance Company, which also carries on a large industrial business, made an agreement intended to prevent poaching upon each other's agency preserves. Its provisions are stringent, but do not appear to have been applied in any oppressive way.

Prior to 1898 the company valued its ordinary policies on the Actuaries Hm. Table with 4½ per cent, and its industrial policies on the combined experience table with 4 per cent.

At December 31, 1898, ordinary policies issued before the beginning of that year were valued on the Hm. Table with 4½ per cent, ordinary policies issued in 1898 on the Hm.Table with 4 per cent, and all industrial policies on the combined Experience Table with 4 per cent.

At December 31, 1899, the company valued all policies issued before January 1, 1898, on the Combined Experience Table with 4 per cent, industrial policies issued after that date on the same basis and ordinary policies, issued after that date on the Actuaries H (^{m}) Table with 4 per cent.

A year later it valued all ordinary policies issued up to December 31, 1899, on the Actuaries Table with 4 per cent, and all ordinary policies after that date on the same table with 3½ per cent; all industrial policies issued up to December 31, 1899, on the Combined Experience Table with 4 per cent, and all industrial policies issued after that date on Farr's English Table, No. 3, with 3 per cent. These last methods of valuation have ever since been adhered to.

Besides these changes in valuation, a fund has been set apart each year to be used in the further strengthening of the reserves at future periods, in accordance with the Act. This fund amounted at the end of 1905 to $18,000.

This company has not adopted Mr. Harvey's method of valuing industrial policies, by passing reserve altogether during the year of entry, but values in the usual manner in that year.

The company's special powers of investment do not in any way extend beyond the provisions of section 50 of the Insurance Act. Its principal loans have been made on the security of real estate in Ontario and Manitoba. Certain loans have been made on the security of bonds and stock, some of them to directors and shareholders of the company, contrary to the provisions of section 18 of the Companies' Clauses Act. A statement of such loans was prepared by the manager, from which it appears that they include many loans on the security of shares in the capital stock of the Ontario Loan and Debenture Company, which seems to have a close affiliation with the London Life. Both companies have the same president, two of the directors and the manager of the Ontario Loan Company are directors of the London Life, and about one-third of the capital stock of the Ontario Loan is owned or controlled by the London Life and its shareholders or directors. The following loans have been made to shareholders of the London Life on Ontario Loan stock:—A. C. Jeffrey, vice-president, $4,500 on January 7, 1901; A. S. Emery, director, $1,800 on May 18, 1894; J. E. Jeffrey, shareholder, $350 on January 22, 1898, $300 on March 22, 1901, and $1,525 on September 27, 1901; John C. Richter, shareholder and manager, $6,000 on December 22, 1891, $500 on September 1, 1893, $850 on July 16, 1894, $950 on November 30, 1904, $4,000 on December 29, 1894, $200 on February 27, 1897, $1,200 on January 7, 1901, $5,000 on August 3, 1901 and $7,500 on October 1, 1901; and Thomas H. Smallman, director, $10,000 on May 30, 1893.

While these loans were all repaid without loss and the interest return seems to have been fair, it should be mentioned that much of the stock pledged as security was not fully paid and carried a liability of $80 per share. The loans were in many cases repaid in small monthly instalments, indicating the accommodation of the borrowers rather than investment of funds. Loans were also made to two shareholders on the security of Agricultural Savings and Loan Company stock, one to John Mills of $700, on October 30, 1897, and the other to John Wright of $1,750, on August 31, 1896.

THE NORTH AMERICAN LIFE ASSURANCE COMPANY.

This company was incorporated in 1879 by Act of Parliament, 42 Vic., cap. 73, under the name of the North American Mutual Life Insurance Company. The name was changed in 1882 by the amending Act, 45 Vic., cap. 98, to the North American Life Assurance Company.

It has no capital stock, so-called, but its Act of Incorporation required that before commencing business there should be subscribed a guarantee fund of $100,000 (which might be increased to $1,000,000), and that applications for assurances should be made and accepted amounting to not less than $100,000. Guarantors and policy-holders are members of the company. The guarantee fund was originally subscribed to the amount of $100,000, upon which $50,000 was paid. Later an additional $200,000 was subscribed and $10,000 paid, making the subscribed fund $300,000, with $60,000 or 20 per cent paid up.

The guarantee fund may be redeemed if a majority of the members so decide, but until redemption the guarantors are really shareholders. They have five votes for each subscribed share. Participating policy-holders have one vote for each $1,000 of insurance. Their votes greatly exceed those of the shareholders in number, but they vote in person only, and very few ever attend a meeting. The result is that the control is vested practically in the directors, who hold many proxies. The estate of the late managing director, William McCabe, owns 860 shares. This is the largest individual holding. If the executors, of whom the present managing director is one, desire to sell, they must first be offered to the president for the time being. This makes for the continuity of control which the arrangement was designed to effect.

The Act of Incorporation authorized the payment of dividends to the guarantors, but no rate was specified. In 1897, by an amending Act, 61 Vic., cap. 79, dividends not exceeding 15 per cent per annum on the amount paid up was authorized. Ten per cent has been paid for many years.

The late William McCabe promoted the company and became its managing director and actuary holding that position until his death in 1903. For many years Mr. W. T. Standen has been the consulting actuary. After McCabe's death, the actuarial work was done by a clerical staff which included Mr. D. E. Kilgour, who, in 1905, was given the position of assistant actuary and on the inquiry he was examined as to the actuarial features of the company's business. Mr. Goldman, the manager, who also has the title of actuary, stated that Mr. Kilgour was better qualified to give the information than he. It was impossible, however, to obtain any satisfactory information as to the methods of distributing profits during McCabe's management. It was suggested that in 1900 he made a somewhat exact calculation and distribution, but no records existed to show the methods adopted.

Estimates of profits seem to have been compiled arbitrarily to meet competition, and the distribution gave more or less to a class as more or less was given in the estimates. It is, however, not possible to reconcile it with any scientific basis. In the rate book for 1886, the profits estimated on a 20-payment life policy, at age 25, were $463.95, while the actual results were $220; at the age 35, estimate $640.35, result about $280; at age 45, estimate $957.15, result about $360. At age 55 the estimate was $1,854.55. In the rate book for 1892 the estimates although lower, were still too high. In the 1903 rate-book, the estimates were again reduced.

The distribution as between policy-holders appeared to be unfair. The profits allotted to policies with deferred dividend periods were much too large by comparison with those allotted to quinquennial policies. For example, in 1905 the company paid $114 profits on a 20-year endowment policy issued at age 31, on which profits were distributed quinquennially, and $403 on a 20-year endowment policy issued at age 34, with a 20-year dividend period. The policy-holder who insured at age 31 did not indicate in his application whether he desired his profits distributed every five years or at the end of twenty years, and they were allotted to him on the former basis. Election to take his profit at the end of the endowment period would have given him about $400.

This difference was confessedly inexplicable, and indicates a marked absence of method in the distribution.

Surrender values do not seem to have been fixed on any scientific principle. A policy-holder insuring at age 25 under a 20-payment life policy for $1,000, on which he had paid sixteen annual premiums of $25.65 or $410.40 was informed that the sur-

render value of his policy was $180.99 notwithstanding the reserve on the policy was then $282.85. If he had insured upon the rate-book now in use, he would have been entitled to the full reserve at any time after the tenth year. The passing of new rules dealing more liberally with persons insured under old policies, was said to be under consideration, and Kilgour suggested that the policy-holder in question might now receive more liberal treatment.

The company issues what it calls a commercial fund policy the form of which was changed in 1897. It is in the nature of term insurance, the premiums advancing each quinquennium, and the first premium containing an extra provision for initial expenses. Under the old form it was agreed that one fifth of each premium, less the expense charge, should be carried as a special contingent fund, to be used for the payment of death losses in case only of unusual mortality from epidemics or otherwise, and that after the policy had been in force fifteen years, and at every regular quinquennial dividend period thereafter, it should participate in the accumulated special contingent fund remaining in surplus. The company claims to return to such policyholders of that class one fifth of each premium other than the first, but they have never been permitted to participate in the accumulations of the special contingent fund arising from investment, lapses or other accretions.

In 1901 the company's agent at Kingston, Mr. W. J. Fair, learned that a policyholder in another company, whose endowment had matured, was offered by the insuring company $2,700 in cash, or a paid up policy for $4,440. Manifestly that company could give him more paid up insurance than he could then purchase from any other company with the cash surrender value. For $2,700 the North American could give him a paid up policy for $3,805 only. The agent communicated with the head office in terms which clearly indicated that he was misrepresenting matters to the policyholder. He sent an application for an ordinary life policy for $4,500 at a level annual premium and the policy was issued. It turns out that the agent retained the $2,700 cash and he has been paying the premiums, the policyholder believing he had what was equivalent to a paid up policy. In 1906 the management insisted on the agent taking up the transaction with the insured and making his insurance paid up. It was stated that the agent was compelled to bear the cost of doing this. Your Commissioners think the conduct of the management in this case when the application was made, calls for severe censure. The correspondence makes it plain that the agent was persistently fixed upon getting the insurance, without regard to whether the insured suffered in the transaction and with full knowledge that his company could not deal with him upon terms nearly so advantageous to him as the originally insuring company could offer. The very fact of the application being for $4,500 ordinary life insurance while the paid up insurance which the other company offered was $4,400, and that the inquiry was how much paid up insurance could be bought with $2,700 cash, compels the inference that the management knew or should have known that the risk was being received for their company by misrepresentations on the part of their agent.

The Manager stated that rebating amongst insurance agents is general or frequent, and conceded that the agents of this company practised it in common with the agents of rival companies. Although he would not admit that rebating had been practised by the head office itself, his refusal to so admit has not much force, because the company received no applications on which commissions were not paid. Even clerks in the head office received commissions. If an application were made direct to the head office the Manager seemed to think the clerk who received it would claim and receive the commission and do whatever rebating was done.

The company made the following loans to directors; $22,780 to Mr. J. K. Kerr, in 1887, on 85 shares of the British Canadian Loan & Investment Company and 368 shares of the Land Security Company. In 1894 additional advances were made, bringing the total loan to $20,280. To another director, Mr. Robert Jaffray, $10,000

was loaned in 1890, and $5,500 in 1893, on the security of shares of the Land Security Company. Mr. Jaffray's loan was repaid in 1900, and the loan to Mr. Kerr was ultimately secured by a real estate mortgage, and he assigned his share in the guarantee fund of the company as collateral security. Payments have since been made, and the balance of principal now due is $27,000, for which the real estate is regarded as ample security. These loans were quite improper, and the Land Security Company stock, while not an unauthorized investment, was a security which no prudent trustee would have been justified in lending upon. It was only partly paid up, and its ownership involved a large liability. The company's experience with these loans brought about a by-law prohibiting loans to directors, which by-law has been uniformly observed.

It is in accordance with the practice of the insurance branch to permit companies to take credit in their annual returns for the excess of the market value of securities over their ledger value. Should the market value be below the ledger value, a corresponding reduction is required. The North American in 1902 and 1904 wrote up the values of certain securities, using the asset thus created to offset certain agents' advances. This came under the notice of the superintendent upon or after the filing of the return for 1904, and he insisted on including in the company's return of assets as published in the blue book, the item 'stocks and debentures written up, $24,655,' and, as expenditure, the item 'written off agents' advances, $24,665.' This was the proper method of treating these items, because otherwise the company's expenses would have appeared to be less than they were. The securities thus written up were:—

	1902.
Imperial Bank	$ 5,000 00
Canadian Bank of Commerce	3,000 00
Bank of Hamilton	9,829 75
Bank of Ottawa	2,000 00
Dominion Bank	3,000 00
Toronto General Trusts Corporation	15,000 00
Toronto Electric Light Co.	7,000 00
	$44,829 75

	1903.
Imperial Bank	$ 1,000 00
Canadian Bank of Commerce	2,000 00
Bank of Hamilton	1,000 00
Toronto General Trusts Corporation	8,000 00
Toronto Electric Light Co.	8,000 00
Sandwich, Windsor and Amherstburg Ry. bonds	4,665 00
	$24,665 00

In almost all instances these amounts represent a mere appreciation in the securities, though in a few cases they include profit realized on actual sales. In the year 1903 there was little or no margin in market over book values, and being unwilling to carry agents' balances into the statement as an asset and so swelling the surplus, the management wrote the item off, showing it in the returns as an expenditure for the year.

The company loaned large sums on mortgages, some of which fell into arrear. A real estate contingency fund was established so that profits realized on the sales of some mortgaged properties might off-set losses arising on others. In 1902 the company sold a large holding of Commercial Cable stock, upon which a profit of $15,148.28 was realized, and this was carried to the credit of the account to cover losses in the mortgage securities. Neither the true profit on the one transaction nor the true loss on the other was shown in the return. The sale of certain vacant land in Toronto to a builder was authorized. He gave a mortgage for the full purchase money, including the cost of buildings erected thereon, on the understanding that when the property was sold the profits would be divided between the company and the builder. By this device the company was enabled to treat the amount so invested as a loan on real estate, although itself a part owner.

The company purchased certain bonds, receiving with them bonus stocks. In October, 1902, bonds of the par value of $200,000, part of an issue of $1,000,000 of bonds of the Chicago & Milwaukee Electric Railroad Company, were purchased. With this no bonus stock was given. Later the Chicago & Milwaukee Electric Railroad Company was incorporated, and isued $5,000,000 of bonds to build further extensions. The company purchased $100,000 of the new issue of bonds in 1903 and $100,000 additional in 1904, both at 95, with 20 per cent bonus stock. These bonus stocks were not

shown in the returns until 1905, when they were included in the schedule without any values set opposite to them. They were purchased through Messrs. Osborne & Francis, who were floating the bonds in Canada. Mr. Henry Osborne, a member of that firm, is the son of Mr. J. Kerr Osborne, a director of the company. The firm also borrowed from the company large sums on Chicago & Milwaukee bonds: $195,000 in 1903, $223,000 in 1904 and additional loans in 1905; the total borrowings being $739,050, and the largest amount owing at one time being about $414,000. The company thus had at risk on Chicago & Milwaukee bonds over $800,000.

Your Commissioners think it was most imprudent to put so large a sum into a single security, especially at a stage when construction was not yet completed, and they cannot overlook the fact that although careful inquiry seems to have been made with regard to the nature of the security, the bonds were being handled by a firm of which a son of one of the directors was a member. It was in the circumstances improper, in the opinion of your Commissioners, that the company should have become interested to so large an amount in the successful flotation of these securities.

In 1905 British Columbia Telephone Company bonds were purchased, to the amount of $350,000, for which $332,500 was paid, 250 shares bonus stock being given with the bonds.

The company commenced business in the United States in 1900, and since then has made large investments in United States securities. These exceeded the United States reserves at the end of 1902 and of each year thereafter. At the end of 1905 the reserve was $369,969, while the company had invested in United States securities and in Canadian securities deposited in the United States, the following:—

1. Loans on real estate	$116,901 72
2. Loans on policies	11,601 30
3. Cash in banks	1,288 06
4. Bonds of United States corporations owned	569,000 00
5. Loans on United States securities	277,300 00
6. City of Halifax bonds deposited in New York	260,641 60
Total	$1,236,732 68

The superintendent wrote the manager on February 14, 1906, pointing out that the limit for United States investments, the reserve and ten per cent, or $406,966, was greatly exceeded and asking an explanation. The manager replied on March 3 that the loan referred to in item five, the Osborne & Francis loan, was then paid off, but he argued that as the moneys were not 'lent out of Canada' they were not within sub-sections 3, 4, 5 and 6 of section 50 of the Insurance Act. As to item six, these bonds, he argued, were Canadian securities, and should not be treated as foreign investments at all. He also argued that the limitation for this company to United States investments was $869,969, arriving at that figure as follows:—

Reserve on United States policies under subsection 4 of section 50	$369,969
Amount deemed 'desirable' to invest in respect of branches in United States under subsection 3, five branches, $100,000 each	500,000
	$869,969

But sub-sections 3 and 4 are not cumulative, and the latter is only to be resorted to when the reserve on United States policies exceeds the amount that may be invested or deposited under sub-section 3. The construction sought to be placed on sub-section 3 is, your Commissioners believe, inadmissible. Parliament did not intend that any number of branches might be established in one foreign country, the establishment of each enabling $100,000 to be diverted from Canadian channels of investment. This construction would make it possible to carry everything but the government deposit out of the country, by opening enough small local branches in the United States. But

even in this view the company was clearly contravening the Act. At the end of the year it had $976,091.08 'invested in foreign securities,' and an additional $260,641.60 'deposited outside of Canada,' or a total of $1,236,732.68.

In the company's return for 1905 its list of foreign assets included items 1, 2, 3 and 6 above mentioned, a total of $390,432.68, but the superintendent appended to the return printed in the blue book a foot-note as follows: 'The value in account of the foreign bonds and stocks held at the head office is $569,000; and of loans on foreign securities $277,300.' A somewhat similar note had been added to the return as printed for 1904.

The company joined Messrs Osborne & Francis in the purchase of bonds of the Sandwich, Windsor & Amherstburg Railway Company of a par value of $147,000, paying therefor $133,677.37. The company advanced all the purchase money and Osborne & Francis were to have one-half the profits realized. Out of the $147,000 bonds $27,000 were sold between February and December. The management then concluded to carry the balance as an investment and acquired the interest of Osborne & Francis on a basis of 93, which gave the brokers a profit of about 1½ per cent. While the price at which the bonds were taken over was not unfair, your Commissioners must express the strongest disapproval of any transaction in which an insurance company advances all the money and assumes practically all the risk, the partner taking half the profit. The transaction becomes still more objectionable when the partner happens to be related to a director.

The company values its policies issued in 1897-8-9 on the Hm. table with 4 per cent; policies issued before those years on the same table with 4½ per cent, and policies issued after 1899 on the same table with 3½ per cent. It is said to be the intention of the company to raise the reserves on policies issued prior to 1897 to 4 per cent, taking the year 1896 in 1907, and an additional year in each year following, until 1910, when it is expected that all the business can be put upon the basis of 3½ per cent. It is said to be the intention to retain the bonus stocks until 1910, and to use the proceeds then to strengthen the reserves, without taking credit meantime for any appreciation in their values.

THE MANUFACTURERS LIFE ASSURANCE COMPANY.

The present Manufacturers Life Assurance Company was incorporated in 1901, being an amalgamation of two companies theretofore carrying on business, called the Manufacturers Life Insurance Company and the Temperance & General Life Assurance Company, which had been in operation from 1887 and 1886 respectively. In 1901, pursuant to authority granted by Dominion Act (1 Ed. VII., cap. 105), an agreement was entered into between these two companies and the new company incorporated by said Act, called the Manufacturers & Temperance & General Life Insurance Company, whereby the new company acquired all the business, assets and good will of the old companies, paying therefor by issuing its capital stock to the holders in the old companies. The name of the new company was changed to The Manufacturers Life Insurance Company by Order in Council, dated December 30, 1901.

The paid up capital of the old Manufacturers Life was $200,000, and the paid up capital or guarantee fund of the Temperance & General was $100,000, making altogether $300,000; and the new company issued to the holders thereof $1,500,000 of its authorized capital of $3,000,000 as 20 per cent paid up stock, making the paid up capital of the new company $300,000.

Prior to 1898, Mr. George Gooderham owned a controlling interest in the capital stock of the Manufacturers Life, but no one person controlled the Temperance & General, although the Hon. Mr. George A. Cox was the largest shareholder therein, holding some 230 out of 1,000 shares. In 1898, Mr. Gooderham acquired the control of the Temperance and General, purchasing 550 of its shares. Notwithstanding that Mr. Cox then controlled two life insurance companies, the Canada Life and the Imperial Life, he was annoyed when the control of the Temperance & General was

acquired by Mr. Gooderham. Later, after some negotiation between Mr. Gooderham and Mr. Cox, the latter was offered the shares held by Mr. Gooderham in both the Manufacturers and the Temperance & General, which he at once accepted. An agreement was entered into between them, dated 1st December, 1898, whereby Mr. Cox was to pay $140,000 for 3,105 shares of Manufacturers Life stock, or *pro rata* for any less amount down to 2,732 shares (with an option to purchase any additional shares Mr. Gooderham might acquire, at cost), and $132,000 for 550 shares in the guarantee fund of the Temperance & General. The agreement indicates that Mr. Cox then had in his mind the amalgamation of these two companies and possibly the Imperial Life, as it provided that Messrs. Beatty, Blackstock, Galt & Fasken should be the solicitors for the companies until they were amalgamated with another company, and thereafter to be retained for a relative proportion of the business of the new company; that Mr. George Gooderham, Mr. T. G. Blackstock and Mr. E. W. Gooderham should go on the boards of directors of several life insurance companies in which Mr. Cox was interested, and that Mr. Gooderham should be at liberty to acquire a substantial interest, at or near the average cost to Mr. Cox, in the said two companies. Mr. J. F. Junkin, the Manager of the old Manufacturers Life, thought it objectionable that any one person should have absolute control, and endeavoured to arrange for the purchase of the shares held by Mr. Cox in the Manufacturers Life by Messrs. C. J. McCuaig and William Strachan. Mr. Cox, however, refused to sell the Manufacturers stock without that of the Temperance and General, and the result was that his stock in both companies was purchased by McCuaig and Strachan on 1st January 1901, at an advance of $658 over the cost thereof. The intention of Messrs. McCuaig, Strachan and Junkin seems to have been to sell this stock in small lots to friends of McCuaig and Strachan in the east and of Mr. Junkin in Ontario, so that the capital stock would be broadly scattered and there would be no control vested in any one person. This proved impossible, as McCuaig and Strachan were unable to interest their friends at the price paid by them. Realizing that a value attached to the block as controlling both companies, they accordingly refused to deal further with Junkin upon any terms which did not relieve them of the whole stock. Meantime steps had been taken to procure the Act permitting amalgamation of the two companies, and while the Bill was before Parliament, Mr. Junkin, fearing that McCuaig and Strachan might so dispose of the stock as to ensure the control which he desired to prevent, agreed on 1st May, 1901, to purchase the stock at the cost to McCuaig and Strachan, with interest added. He was simultaneously arranging for a distribution of the stock, and in the end the substituted stock in the new company was divided as follows:—Lloyd Harris, 1,350; H. M. Pellatt, 1,000; William Strachan, 1,073; S. G. Beatty, 1,000; William Mackenzie, 2,000; D. D. Mann, 2,000; McLaughlin & Johnson, 400; J. F. Junkin, 323, making in all 9,146 shares.

When the amalgamaution of the two companies was proposed, it seems to have been the plan that Mr. Junkin, the manager of the old Manufacturers Life, and Mr. Sutherland, the manager of the Temperance and General, should be joint managers of the new company; but on the amalgamation coming into effect Mr. Junkin became the manager and an agreement was entered into with Mr. Sutherland, which was ratified by the executive committee of the new company, September 9, 1901, by which, in consideration of receiving from the new company $2,000 per year for five years as an honorarium for retiring as managing director of the Temperance and General, he agreed to refrain from injuring either of the companies named, by inducing policyholders to surrender policies or otherwise; to refrain from verbal, written or printed criticisms of or reflection upon the companies or their management or officers, to assist the companies in any way in his power by inducing agents to remain with the new company and policyholders to retain policies, and, if requested, to sign letters to the agents and policyholders pointing out his confidence in the companies and containing an expression of hope that they would see their way clear to continue their connection with the company. It further provided that if Sutherland again became engaged in insurance business he would not employ any agent or

officer of the companies named until twelve months after the termination of his service; and that payments under the agreement should cease if at any time, in the opinion of E. R. Wood and Thomas Bradshaw, or the survivor of them, he failed to carry out the agreement. The last payment under the agreement was made on July 1, 1905.

The original issue of capital stock of the old Manufacturers Life was not subscribed at a premium, and the capital became impaired in establishing its business. After the stock had been issued, a premium of about $18 per share, producing about $100,000, was paid, but this did not overtake the impairment. Mr. George Gooderham, rather than call for further aid from the shareholders, thereupon advanced to the company about $30,000, small sums being advanced by S. F. McKinnon, R. L. Patterson and C. D. Warren, directors of the company. It was intended to repay this advance as soon as the company should be in a position to do so, but it was important that it should not appear as a liability meantime, otherwise the impairment of capital would still remain disclosed. Accordingly an agreement, dated September 17, 1891, was entered into between the company and George Gooderham, whereby alleged renewal commissions, pretended to have been commuted, were to be paid him in respect of premiums to be collected at the head office, until the advance, with interest at 6 per cent per annum, was repaid. The object of this agreement was, no doubt, to enable the company to treat the payments to Mr. Gooderham as commissions to agents, in order to keep the liability concealed in its returns.

When Mr. J. F. Junkin became manager in 1895, he found that for some time no payments had been made to Mr. Gooderham, and none were made till December, 1897, when another transaction occurred, whereby the company undertook to pay Mr. Gooderham a further sum which it was also desired to conceal. During Mr. Gooderham's presidency a loan had been made to one Leslie, on property in Toronto, and, the payments falling into arrears, the company foreclosed. After the foreclosure the following resolution was passed by the executive committee on December 30, 1897 :—

> '*Re* Leslie property: The position of this mortgage having been discussed, valuation considered, &c., and W. G. Gooderham, Esq., having offered for the whole property the sum of $60,000, it was decided to accept such offer, and that the balance of the account should be written off.'

Although the purchase price thus appeared to be $60,000, it was understood that the company would repay $20,000 of it. Accordingly, at the same meeting, a resolution was passed which, after reciting that the president had given a great deal of valuable time, care and attention to the company, and had been of great assistance in financial matters, provided that his annual honorarium should be increased from $2,000 to $5,000, the increase to take effect from January 1, 1898, and to be payable quarterly during his lifetime. This increase was in reality the cloak under which it was intended to repay the $20,000 and conceal the liability.

On 3rd January, 1898, a further agreement was made with Mr. Gooderham whereby, after a recital of the old advance of 1891, and other recitals, maintaining the original pretense of commuted commissions, all profits from lapses, surrenders, &c., as well as commissions on all renewal premiums on which agents' commissions were not paid, were made over to Mr. Gooderham to secure repayment of $20,500, with interest, that sum being fixed as the balance then due in respect of the advance of 1891.

At a meeting of the board on 21st January, 1900, these undisclosed liabilities to Mr. Gooderham and the other directors named were discussed, and it was decided to repay them forthwith. At the same meeting 3,790 shares of new stock were issued at a premium of $12 per share. The total premium thus received amounted to $43,608, which was used to repay the following sums: George Gooderham, $39,044.72; S. F. McKinnon, $2,500; R. L. Patterson, $1,000, and C. D. Warren, $801.93. The amount paid to Gooderham included the $20,000 undertaken to be repaid to him in respect of the Leslie transaction, after crediting his increased remuneration as president for the year during which it had been paid. These payments were approved at the annual meting of the shareholders on 15th March, 1900. The receipt of premium on the new capital issued and the payments made to Mr. Gooderham and the other directors were

not shown in the company's return for that year, as filed with the superintendent, but upon their being discovered amendments were insisted upon by the superintendent, and they accordingly appear in the return as printed in the Blue Book.

Until the amalgamation of the companies in 1901 Mr. Gooderham remained president of the Manufacturers, but after the transaction just mentioned he took very little interest in the company, being away most of the time. The duties of president were performed by Mr. Robert Jaffray, vice-president, who had become a director, with Mr. J. J. Kenny, at the annual meeting in 1899, after Mr. Cox's purchase of the Gooderham shares. Mr. Gooderham's remuneration as president had ceased to be paid at the end of 1899. In February, 1902, a demand was made by him for remuneration for the period of a year and a half from the beginning of 1900 till the amalgamation, and a resolution was passed authorizing the payment of $1,000 to him in settlement. This was accepted, and Mr. Gooderham's connection with the company thereupon ceased.

Mr. Gooderham was insured under Policy No. 1 of the old Manufacturers Life. It was a 10-year endowment policy for $50,000. He was allowed a commission of 30 per cent on the first premium and 10 per cent on the renewals. In 1897, when the policy came due, Mr. D. P. Fackler, the consulting actuary of the company, stated that the commission was too high. He pointed out that a company might pay 30 and 5 on small policies which might lapse and so yield some compensating profit. He discussed the matter with Mr. Gooderham, who consented that the excess commission received by him should be accumulated for five years at 5 per cent, and charged against his tontine dividend. This was done, and the tontine dividend which would otherwise have amounted to $4,598 was reduced to $954.60.

The company's powers of investment are entirely governed by section 50 of the Insurance Act.

During 1901, the first year of the amalgamated company's business, its transactions in stocks and bonds, while fairly large, do not indicate any speculative tendency. In the years 1902 and 1903 the management seems to have become more adventurous, and the dealings in stocks and bonds during those years exhibit a pronounced attraction towards the more or less speculative securities of companies in which directors had large interests. These dealings were of such a class that those undertaking them would be compelled to keep constant and vigilant watch upon rapidly fluctuating quotations. In 1902, commencing with May 16, the company bought altogether 1,700 shares of Canadian Pacific Railway stock and 1,000 shares of Commercial Cable, and in October and November it bought 700 shares Dominion Coal.

Four hundred of the Commercial Cable shares were sold before the end of the year, leaving 600 shares shown in the annual return, and sold in 1903. The Canadian Pacific Railway and Dominion Coal were both unauthorized securities, and on December 31, 1902, the company went through the form of selling 400 of the Canadian Pacific Railway shares and all the Dominion Coal shares to Pellatt & Pellatt at the original cost, and on January 2, 1903, Pellatt & Pellatt went through the form of selling them back to the company at the same price. The fact that all the Canadian Pacific Railway shares were not taken off and restored to the books in the same way may be accounted for by the circumstance that the management does not seem to have been aware of the unauthorized nature of the security. In 1903 further purchases were made from time to time of Canadian Pacific Railway shares to the number of 900, and sales were made of 1,600 shares, leaving 1,000 shares on hand at the end of the year, as shown by the annual return. After certain intermediate dealings with these shares which will be reviewed hereafter, they were finally sold in October, 1904. The company bought in 1903, mainly in March, during a rapid decline in the market, 1,125 additional shares of Dominion Coal, making 1,825 shares. The ownership of these shares was concealed at the end of 1903 by a pretended sale to Mackenzie, Mann & Co., hereafter referred to. The company also bought and sold 525 shares of Twin City Rapid Transit stock in 1902, bought 1,300 and sold 500 in 1903, and sold the balance, 800 shares, in 1905. It bought 400 Toronto Electric Light

shares in 1901; bought 600 in April and May, and sold 235 in October, 1902; bought 735 in January and May, 1903, and sold 675 in October, 1904; leaving 825 on hand at the end of 1904, which it retained as an investment until the date of the inquiry. It bought 1,000 shares of Winnipeg Electric Railway stock in January, 1905, and 664 additional shares in May, 1905, which it also retained as an investment. It also purchased 202 shares of Crow's Nest Coal stock, an unauthorized security in March, 1903. These shares, with the Dominion Coal, were passed off the books at the end of the year by the pretended sale to Mackenzie & Mann, and were finally disposed of under circumstances which will, with that pretended sale, be hereafter more fully noticed. It was expressly admitted that some of these purchases were made not as permanent investments, but with the intention of holding for a short time, in anticipation of a rise in the market.

The company acquired large blocks of bonds carrying bonus stock. In 1901 it took over from the companies that were then amalgamated, and it still owns $47,000 Quebec Railway, Light & Power Company, and $10,000 Toronto Hotel Company bonds, each carrying 10 per cent of bonus stock. In June, 1903, it bought $50,000 Mexican Light and Power bonds at 90, carrying 70 per cent of bonus stock and $50,000 Electrical Development Company bonds at 95, with 90 per cent of bonus stock. The resolution of the Finance Committee as to the latter bonds authorized the purchase 'on the best terms possible by the managing director.' It was stated by Mr. Junkin that some time prior to the meeting at which this resolution was passed he had asked Colonel Pellatt to arrange that the company be allowed to become an underwriter of the bonds. Col. Pellatt, Mr. Junkin and S. G. Beatty were at that time three of the underwriters at 90, with 100 per cent of bonus stock, but through some objection of a member of the committee in charge of the underwriting the company was not permitted to take part. The bonds underwritten by Mr. Junkin, amounting to $25,000, had been sold prior to May 22, 1905, the date of this resolution. After the passing of the resolution Mr. Junkin agreed to purchase from Mr. Beatty $50,000 of the bonds underwritten by him, on the basis of 95, with 90 per cent bonus stock. He stated that at the date of the resolution he had no intention of making the purchase from Beatty but that this was a better price by some 5 per cent of bonus stock than he could obtain elsewhere; $40,000 of the bonds so purchased were taken over on June 11, 1903, and the balance of $10,000 on February 22, 1904, at which date a resolution was passed by the executive committee confirming the purchase of the $10,000, balance of the $50,000. Mr. S. G. Beatty was present at this meeting and also at the meeting of the finance committee, when the purchase was authorized, but nothing appears on the minutes to indicate that the purchase had been made from him. In June, 1904, the company also purchased from Osborne & Francis $62,000 bonds of the Chicago and Milwaukee Electric Railway at 97, with 10 per cent of bonus stock. All these bonus stocks were omitted from the annual returns of the company until December 31, 1905, when those then on hand were shown, but no value was placed opposite them in the return. Nor did the company keep a complete record of them in its ledger, as it did with other securities, but they were mentioned in the company's minutes authorizing or adopting the purchase from time to time, and in the statements from time to time presented to the executive committee. This method of treating the bonus stocks in the books and returns seems to have resulted from the view taken by the management that the cash payment represented the bonds only, and that the stocks did not involve any actual payment of money.

The company made large investments on call loans to brokers and others. In these transactions it loaned to its directors as freely as to other persons, notwithstanding the prohibition contained in the Companies Clauses Act elsewhere referred to. It loaned to Pellatt & Pellatt, Mackenzie, Mann & Co., William Mackenzie, D. D. Mann and William Strachan. Some of the securities received by way of pledge—such as Canadian Pacific Railway, Canadian General Electric and Dominion Coal—were not authorized under the Insurance Act. The company also made large loans on bonds and

stocks of the Sao Paulo and Mexican Light and Power Companies, which, though incorporated in Canada, carry on all their operations elsewhere. At the date of the inquiry the company had called in these loans.

The board of directors meets once a month. In the interval practically all its powers are exercisable by an executive committee, consisting of the Toronto members of the board and Mr. Lloyd Harris, which meets weekly.

On November 17, 1902, after the company's transactions in stocks and bonds had become active, a finance committee was appointed, as it appeared expedient to have a small committee to deal with this class of investments. The committee were given power to:—

> 'approve the sale of stocks and bonds owned or which may be owned by the company, and to approve the purchase of all stocks and bonds by the company.'

Messrs. Pellatt (chairman), Mason and Beatty, with the managing director (or in his absence, the assistant manager), were appointed members of the committee, and Mr. D. D. Mann was added in 1903. At the end of that year the committee was not re-appointed.

The transactions between the company and Pellatt & Pellatt, the company's brokers, especially the dealing in Dominion Iron and Steel stock, furnish matter of comment. It is also matter of comment that Sir Henry Pellatt, a member of the firm and vice-president of the company, should have permitted himself to be placed on this small committee, with its broad powers of dealing on behalf of the company with securities of the class in which his own firm was constantly being concerned. The only explanation which conforms to all the facts is that his firm's operations on the stock market, both for themselves and their clients were so large and the tendency of the market value of securities was towards such depressed conditions, that it seemed desirable in his and his firm's interest and for his own and his firm's purposes that he should acquire as complete control as possible over the company's investments. In that view the smaller the committee and the more important his position on it, the better. It will be seen shortly that in the minute preceding the creation of the committee a most important and significant transaction between Pellatt and Junkin, involving the company in an unauthorized speculation, without the knowledge of any other member of the board, had taken place. Pellatt's firm was largely interested for itself and its clients in the securities in which the company's funds were being invested, and acted almost exclusively as the company's brokers. On some occasions the firm filled the company's order to buy out of the firm's own stock. Some of these securities became depreciated in 1902, and a general decline occurred in 1903. Clients' margins became exhausted and the firm's financial burdens became greatly increased in its efforts to carry the securities. In the end it was unable to obtain the release of some of the company's securities which it had been allowed to pledge. The indications all point to an intended manipulation of the company's funds and securities in the prolonged and serious financial campaign which its brokers were undertaking.

On March 5, 1903, Lloyd Harris, H. M. Pellatt, James Mason and S. G. Beatty, directors of the company, and R. J. McLaughlin, one of the company's solicitors, procured the incorporation of a company called 'Canadian Securities Limited,' with a share capital of $500,000, divided into 5,000 shares of $100 each, and with power to buy, sell and deal in bonds, stocks and debentures.

It was said that the real object of incorporating this company was to constitute it a purchasing agent for the insurance company; that many times bonds were offered in such large quantities as to be beyond the amount that any one investing company would buy; that in such cases it was intended the Securities Company would tender for the whole issue, give the insurance company what it wanted, practically at cost, and sell the balance elsewhere. The insurance company subscribed for $20,000 stock, or one-half of the stock issued, which was subsequently increased by a stock dividend to $28,000. This it held until December 30, 1905, when it was sold at par to Mac-

kenzie, Mann & Co., Ltd., acting, it was said, for one R. D. Davidson. During that time the Securities Company bought and sold bonds and debentures, amounting to more than $2,250,000. It sold to the insurance company about $630,000 bonds and debentures, of which the largest part were debentures. The company's operations proved to be successful. Besides the stock dividend above referred to, it paid cash dividends of 10 per cent each year, and it was expected it would be able to continue dividends at that rate for some time to come. While it seems to have dealt fairly in its transactions with the insurance company—that company realizing more on its capital investment in the Securities Company than the Securities Company realized on its sales of bonds and debentures to it—yet your Commissioners cannot but regard operation through and by such a subsidiary company, the capital stock of which is almost entirely owned by the insurance company and its directors and shareholders, as prejudicial in the long run to the interests of the insurance company, It was proper for the latter company to dispose of its stock in the Securities Company and, if further dealings are to take place between the two companies, all the directors and officers of the insurance company should also free themselves of conflicting interests.

As already stated Messrs. William Mackenzie and D. D. Mann became the purchasers of 4,000 shares of Manufacturers Life stock. The purchase was completed on December 1, 1902, at which date both these gentlemen were directors of the company. Mr. Mann had been appointed in 1901, and Mr. Mackenzie in 1902, the former qualifying as the holder of 161 shares of the company's stock, and the latter as a policyholder. Mr. Junkin endeavoured to effect a sale to them for some time before it was arranged, believing that their names would give strength to the company, and for some months it was understood that they would acquire a substantial holding, but to what amount was not definitely ascertained. The stock cost them about $185,000, of which the Manufacturers Life advanced $127,580.05 on a call loan receiving as security 200 bonds of $500 each of the Inverness Railway and Coal Company, and the 4,000 shares of Manufacturers stock, the latter being transferred to the manager in trust. Both these securities were unauthorized under the Insurance Act. Besides, under section 38 of the Companies Clauses Act, as qualified by section 21 of the Company's Act of Incorporation, the company was expressly prohibited from making any loan to its directors. The loan was approved at a meeting of the Executive Committee held on December 1, 1902, at which Messrs. Lloyd Harris, G. W. Ross, H. M. Pellatt, R. L. Patterson, James Mason, managing director (J. F. Junkin), assistant manager (Robert Junkin), and assistant secretary (L. A. Winter), were present. Under section 21 of the Companies Clauses Act, all these directors and officers who made or assented to the loan became jointly and severally liable to the company for the amount thereof, and would have been responsible for any loss had the borrowers not ultimately repaid the whole advance. It was intended that the loan should be merely a temporary one, to be paid off before the end of the year, but the borrowers seemed to be in no hurry to pay it off. On May 4, 1903, the Executive Committee also approved of a loan of $11,000 to Mr. Mackenzie, the application being made by Pellatt & Pellatt, and the security being 30 bonds of $500 each of the Inverness Railway & Coal Company. Messrs. Mackenzie & Mann as directors must have known that these transactions were improper, as they assisted in concealing the securities at the end of each year. The first loan was treated in the books of the company as being paid off on December 26, 1902, and readvanced on January 8, 1903, Both loans were treated as being paid off on December 28, 1903, and readvanced on January 25, 1904. These devices did not in reality put an end to the transactions. They amounted to a mere arrangement between Mackenzie & Mann, the bank and the manager, whereby the company was able to show at the end of the year a cash item instead of the loan, the bank advancing the money for that purpose.

At the end of 1903 the company had on hand, as previously stated, 1,825 shares Dominion Coal and 202 shares Crow's Nest Coal, which were unauthorized investments and which had cost the company and stood on its books at $230,903.86 and $15,162.62,

respectively. At that time Dominion Coal shares were quoted on the market at 73 asked and 72¾ bid. At the latter price the stock would bring $132,768.75 or $98,135.11 less than cost. The Crow's Nest Coal shares were not in demand at the time, and it is difficult to estimate what they would have brought on a forced sale. The company also held the unauthorized securities pledged for the call loans to Mackenzie & Mann and to William Mackenzie, just referred to. All of these securities the management desired to conceal in making the annual return. It was necessary that the two coal stocks should be represented by assets equalling their cost, otherwise the loss on them would appear. To accomplish this, the finance committee, at a meeting held on December 29, 1903, at which Col. Pellatt (chairman), S. G. Beatty, Col. James Mason and J. F. Junkin were present, passed the following resolution :—

> 'Sale of 1,800 shares of Dominion Coal at 126½ and 202 shares of Crow's Nest Coal at 300¼ to Mackenzie, Mann & Co., with a guarantee from this company against loss in the transaction was approved.'

The day before the resolution Mackenzie, Mann & Co. gave the company their cheque for $386,443.51, made up as follows :—

Mackenzie & Mann, call loan	$128,959 00
Wm. Mackenzie, call loan	11,418 03
1,825 shares Dominion Coal	230,903 86
202 shares Crow's Nest Coal	15,162 62
	$386,443 51

The receipt of these amounts appears in the company's December cash-book. In the cash-book for January, 1904, the repayment of them appears, and in addition the payment of $1,482.26, representing interest charged on the loan by the bank. This whole transaction was purely fictitious. The stocks still remained the property of the insurance company, subject to the pledge to the bank. This large deposit to the credit of a bank account which had been very small or adverse during the year and the repayments in January attracted the attention of Mr. Blackadar on his inspection in February, 1904. After consultation between him and the Superintendent of Insurance, it was insisted that the directors responsible for these transactions should take over the securities. The management promptly set itself about accomplishing this, and on March 3, 1904, procured the rearrangement of the call loans by a new loan to Mackenzie, Mann & Co., Limited, and in the same month the Dominion Coal and Crow's Nest Coal shares were disposed of to the Prudential Securities Company under circumstances which will be hereafter set out.

The new loan to Mackenzie, Mann & Company, Limited, was $138,432.75, which covered the amount due on the two call loans. The security taken was 1,600 shares, $100 each, Canadian Lake and Ocean Navigation Company ; 1,650 shares, $100 each, Imperial Rolling Stock Company; 8,566, $20 each, Vancouver Gas Company, which were said to be worth in the aggregate, $214,500. The company also retained its own shares, standing in the manager's name in trust, as additional collateral security. The loan was partly paid off in July, and the balance in December, 1905. At the time this new loan was made the Mackenzie & Mann interests in the company were represented on the board by D. B. Hanna, William Mackenzie and D. D. Mann. It might have been supposed that those interests were sufficiently represented by the two directors, but as Mr. Mackenzie did not attend the meetings the manager seems to have suggested the addition, not the substitution, of Mr. Hanna. A transfer was made to Mr. Hanna on January 20, 1904, of 50 shares out of the 4,000 standing in the manager's name in trust to qualify him, his appointment to the board being made at the annual meeting in that year.

By an agreement, dated March 7, 1904, between D. D. Mann, William Mackenzie, Lloyd Harris, H. M. Pellatt, S. G. Beatty, James Mason, A. R. Wood, E. J. Lennox, R. L. Patterson and J. F. Junkin, directors of the Manufacturers Life (other than Wood, who was an ex-director), of the one part, and the insurance company of the other part, after reciting that said directors authorized the purchase of the Dominion Coal and Crow's Nest shares at a cost of $240,000, which, if sold, would show a loss to the company at present prices, of $125,000, and that the company had required the directors to take up the securities and make good the loss, it was provided that the directors should incorporate a company to act as a holding company; that the insurance company should sell it to the Dominion Coal and Crow's Nest shares and $35,000 Mexican Power Company and $45,000 Ontario Electrical Development Company common stock for $240,000; that $100,000 of the price should be paid in cash and the balance should be represented by a call loan from the insurance company, sufficiently secured by securities authorized under the Insurance Act; that the directors should subscribe for sufficient stock in the new company and pay up same in cash or by transfer of securities which could be used for a call loan, each being responsible for one-tenth part of the transaction; that, if any of the directors refused to sign, it should not affect the liability of the others, and that $10,000 paid-up stock in the company to be formed should be transferred to the insurance company as a further consideration for the sale of the Coal stocks and for the Mexican and Electrical Development Co. shares. It will be noted that the sum mentioned, $240,000, was not the full cost, by about $6,000, of Dominion Coal and Crow's Nest shares, and that no cash payment was made for the Mexican and Electrical stocks. These were the bonus stocks received by the company on the purchase of the Mexican and Electrical Development bonds previously referred to. It is obvious that the $10,000 paid-up stock in the new company was no adequate consideration for the transfer of these bonus stocks, and that the transaction actually carried out was by no means a simple taking over and making good of the investments, but the pretension is put forward that as the directors were assuming a very heavy loss and had acted throughout in what they believed to be the interests of the company, it was not unfair that some allowance should be made them. The Mexican stock was sold on December 5, 1905, at 65¾, and the Electrical stock was sold, 75 shares, on May 22, 1905, at 62¾, and 375 on June 9, 1905, at 51¾.

Pursuant to the agreement, these directors incorporated the Prudential Securities Company, Limited, with power to invest and deal in debentures, bonds, stocks and other securities, and to borrow money upon the mortgage or pledge of any of its property. It acquired the stocks set out in the agreement, on the terms stipulated, except that it paid $212,000 cash instead of $100,000, and treated the balance, $28,000, as a call loan on the security of 170 shares Western Assurance, 180 shares Royal Loan and Savings Company and 155 shares Toronto Railway Company. It seems to have been the intention of the parties that this company should buy and sell other stocks and bonds in order, if possible, to make good the loss sustained by it on the two Coal stocks. It was, no doubt, realized that its connection with the insurance company would enable it to conduct its transactions largely by means of loans of the insurance company's funds. Accordingly the Prudential Company bought large blocks of Winnipeg Railway stock and Mexican Light and Power bonds and stock. The moneys required to make these purchases were largely advanced by the insurance company, the amount loaned being, in some cases at least, the full purchase price of the security. The total advances made to the Prudential by the insurance company amounted to $264,136 in January, 1905. It remained at about that figure until May, 1905, when it was paid off. The Prudential Company was then wound up, and the insurance company received for its $10,000 stock in the Prudential Company $8,000 in cash and 50 shares of Mexican Light and Power Company stock, which was sold on December 6 for $3,262.90. $4,000 of the cash payment was credited to the Electrical Development Company bonds and a like amount to the Mexican Light and Power bonds, as the company regarded the $10,000 stock in the Prudential as being the equivalent of the bonus stocks received with such bonds.

In October, 1902, a series of transactions commenced, at the suggestion of Sir Henry M. Pellatt, which must be referred to with some detail. His firm had, prior to that month, become bound, in the course of its own operations and in consideration of a payment previously made to them, to take delivery of 2,500 shares of Dominion Iron and Steel stock if put to them in that month, 1,500 shares at 70¼ and 1,000 at 68¼, the transaction being in reality a bet on the market. In August, 1902, this stock had been selling at about 79½. On September 29 the market price was down to 70½ and immediately thereafter it declined rapidly. On October 1, it was 63; on October 6, 57⅛; on October 7, 52¼ and on October 8, 47¼. With this break in price, and in view of his firm's obligation just mentioned, it was important that Pellatt should obtain some buying orders to support the market. The stock was not then a dividend paying stock, nor was it an authorized insurance investment. He, however, induced Junkin, the managing director of the company, to purchase 1,000 shares in October, on the statement that, in his opinion, the stock would shortly recover and be worth par, and on his offering to protect the company from any loss. Junkin stated he agreed to the purchase in his anxiety to make money for the company; that while he knew Pellatt was a large holder of the stock, he did not know that he was buying and selling on his own account, but thought his transactions were those of a broker only. The 1,000 shares were bought in the following lots and prices, which include ¼ of 1 per cent commission to Pellatt's firm. October 4, 300 at 63½ and 200 at 63⅜; October 6, 200 at 57¼; October 7, 100 at 52¾ and 200 at 52. At the same time his firm was being required to take delivery of the 2,500 shares above referred to, 500 at 70¼ on October 1; 900 at 70¼ and 1,000 at 68¼ on October 7, and the balance, 100 shares at 70¼ on October 15. With these and other shares the firm owned, it had on hand 3,983 shares of the stock on October 9. Brokers bought notes for the 1,000 shares were duly sent, addressed 'J. F. Junkin, Esp., Toronto,' from which the printed requirement as to margin was struck out. No record of these transactions was made in the company's account in the brokers' books, but they were entered in the personal account of Mr. Junkin, for whom the brokers were then carrying 100 shares C.P.R., and 100 shares Dominion Iron and Steel, bought on September 8 and 15, respectively, upon which no margin whatever had been paid. The brokers had also carried into this account entries relating to the purchase of 400 shares C.P.R. on September 30, and 125 shares Dominion Coal on October 4, 1902. These all remained in the account until October 10, when reverse entries were made and they were carried into the company's account. It was said that making all these entries in Junkin's account was a mere mistake, which was corrected as soon as discovered. It seems to be fairly clear that the 100 shares C.P.R. were purchased for the company, as it was reported to and approved by the Executive Committee at its meeing on October 2, 1902, and the cost thereof, $55,650, was paid by the company in instalments, the last being paid on November 4, following. But the fact that the C.P.R. shares were entered in the wrong account does not demonstrate that the entry of the Steel stock was a mistake, and had the latter gone up in price as quickly as it had gone down, there was no record of the transaction in the books of the company or the broker's firm to indicate that the company was entitled to the resulting profit. No director besides Pellatt and Junkin was aware of the transaction. At about the time these entries were reversed the managing director of the company, without the knowledge or authority of the Board or Executive Committee, gave to the brokers some 400 shares or more of Commercial Cable stock, to assist them to carry the Dominion Iron and Steel stock, that is to say, it was handed to the brokers to be pledged by them with their bankers. Later this Cable stock was sold for the company and C.P.R. stock was substituted therefor. On March 30, 1903, a purchase of 400 shares of Dominion Coal was made for the company, but here again no authority was given for the purchase. No payment on account was made, but 400 additional shares C. P. R. stock were delivered to the brokers for the purpose of carrying the Dominion Coal stock. The managing director said this purchase was made with the expectation of making a profit to help out the Steel stock.

But an examination of the brokers' books reveals a condition of affairs that leads to the impression that Pellatt induced the purchase to be made, for his firm's benefit. The brokers had been members of the syndicate buying Dominion Coal stock which is more fully referred to in the report on the Canada Life The operations of that syndicate had resulted in a loss, and these brokers had to take delivery of 15 per cent of the syndicate's holdings of 11,400 shares, or 1,710 shares, which they did on 15th April, 1903. It cost them about 129, whereas the market price was then about 110, and it was greatly to the interest of the brokers that the market should be supported as much as possible. Whatever motive prompted these dealings, the result was that Pellatt & Pellatt in the end had the company's 1,000 shares of C.P.R. stock, which could be and were pledged by them, and the company had in its vault, 1,000 shares of Dominion Iron and Steel stock and 400 shares Dominion Coal stock, purchased from the brokers, which were practically useless to them as securities on which to raise money and which were not authorized investments for the insurance company. Matters remained in this position until October, 1903. In the meantime the market price of Dominion Coal was declining in the same way as the Steel stock and the loss was continually getting heavier. The managing director called upon Pellatt to carry out his promise and make good to the company the loss on these two stocks. This Pellatt was willing to do, but required assistance to obtain a release of the company's C.P.R. stock which had been pledged for $101,800, the price of the Steel and Coal stocks. For this purpose a loan had to be made to him, and as the other directors of the company were not parties to or aware of the transactions, some reason for the loan had to be given to them. It was stated that as Pellatt was assuming the loss on the Steel and Coal stocks it was thought to be unnecessary that any information should be given about them. Accordingly it was represented by the managing director to the Finance Committee at a meeting held on October 14, 1903, attended by Messrs. Mason, Wood, Patterson, Beatty and J. F. Junkin, that the loan was occassioned by circumstances set out in the minutes as follows:—

> 'The managing director reported that the company had purchased through Pellatt & Pellatt, acting in their capacity as brokers, 1,000 shares of the Canadian Pacific Railway, which had been paid for in instalments from time to time, and that when the last instalment was made the said brokers were unable to deliver the stock, it being hypothecated to certain banks, the amount required for the release of the same being $101,800. Though not in a position to pay cash for the release of the said stock, Pellatt & Pellatt offered to give the company the following security for the indebtedness:—
>
> 1. A mortgage upon Lieut.-Col. Pellatt's Scarborough Beach property, comprising lots 1 to 17 (except 5) both inclusive, according to Reg. Plan 117, together with the water lot in front thereof, and lots 1 to 4 and 37 to 40, all inclusive, according to Reg. Plan 958 adjoining the first described property.
>
> 2. To transfer to the company:—
>
> (*a*) 1,000 shares Dominion Iron and Steel Company stock.
>
> (*b*) 400 shares Dominion Coal Company stock.
>
> (*c*) 500 shares Mexican Light and Power Company stock.
>
> (*d*) Lieut.-Col. Pellatt's equity in 1,000 shares of Manufacturers Life Insurance Company stock.

This was followed by a brief minute authorizing the taking of the proposed security.

On October 26, the same directors and Mr. Harris being present, the matter was more formally dealt with by a specially prepared resolution which records in the most precise terms the representation then being put forward.

The resolution was prepared by the manager in consultation with the company's solicitor, and while Pellatt did not know the terms of the resolution he knew that the transaction was not to be fully stated to the executive committee. By this means the

real facts with regard to the purchase of the Steel and Coal stocks were kept from the knowledge of the other directors of the company until the matter came out in the course of the inquiry made by this commission. On October 28, 1904, security was given on the property mentioned in the resolution, whereupon $101,800 was advanced to the brokers to release the 1,000 shares Canadian Pacific Railway stock. This stock was delivered to the company and the 1,000 shares Steel stock and 400 shares Coal stock became the property of Pellatt, subject to the pledge thereof to the company. This mortgage was finally paid off and discharged in March, 1906.

THE DOMINION LIFE ASSURANCE COMPANY.

This company was promoted by Mr. Thomas Hilliard, the present president and manager. It was incorporated in 1889, by Act of Parliament, 52 Vic., cap. 95. No amending Act has been passed.

The organization expenses were small, Mr. Hilliard having obtained nearly all the subscriptions for stock. His whole charge for organization services was $800 and travelling expenses.

The head office is at Waterloo.

Included in its assets in the returns to the government for 1889 and 1890 was the sum of $1,329.25, under the heading 'Preliminary Expenses,' and in the return for 1891 $1,000 was included under a similar heading. The department objected, and in the printed return the item was deducted each year.

The authorized capital is $1,000,000. The subscribed capital at December 31, 1889, was $250,300. Of this 25 per cent was called up. No substantial change took place until 1900, when the subscribed capital was increased to $400,000 and the paid-up to $100,000. This increase was issued at a premium of $50 per share, and 25 per cent of both capital and premium was called up, realizing $37.50 per share, of which $25 was carried to capital and $12.50 to surplus funds.

The directors had considered the question of increasing the capital prior to the Dominion legislation altering the basis of reserve. It was believed that additional capital would tend towards stability and better the security of policyholders. Each shareholder was offered one new share for every two shares. A small amount was left unsubscribed, and this was redistributed to those who asked for it, the relative holdings not being materially altered.

The capital has never been seriously impaired, the impairment of about $2,300 in 1890 and 1891 having been made good by the end of 1893.

Prior to 1894 no dividend was paid. In that year the dividend was 3 per cent; in 1895, 4 per cent; in 1896, 1897 and 1898, 5 per cent; in 1899, 1900 and 1901, 6 per cent; in 1902, 7 per cent, and in 1903 and subsequent years, 8 per cent.

By section 13 of the Act of Incorporation the company is required to maintain three separate accounts of its business in the 'General,' 'Abstainers' and 'Women's' sections, keeping the receipts and expenditures distinct, each section sharing its own profits and each section paying its proper proportion of expenses. In the distribution of profits the directors are required to allot to the participating policyholders at least 90 per cent. In practice the premium income of each section is kept distinct, the death losses of each section are charged to it, and the general expenses are divided proportionately between all the sections. There is no distinction in the premium rates of the several sections, but in the Women's section there are no non-participating policies. The mortality in the Abstainers' section is lower, and in the Women's section higher than in the General section. Each section takes the exclusive advantage or bears the exclusive burden of its own rate of mortality.

At December 31, 1899, the company valued its policies issued before January 1, 1896, on the Institute of Actuaries Hm. table with 4½ per cent and all policies subsequently issued on the same table with 4 per cent. At December 31, 1900, policies

issued before January 1, 1900, were valued at 4 per cent and all later policies at 3½ per cent. The amount required to set apart this additional reserve was furnished out of the premium on the capital issued in 1900.

The company's investments have consisted, almost exclusively, of loans on real estate, loans on policies and municipal debentures.

In 1903 Sao Paulo bonds to the amount of $10,000 were purchased. On objection being made to the investment it is said it was decided to sell, but the sale was not completed until shortly before the inquiry.

The company in 1893 loaned $9,000 to the Ontario Mutual Life Assurance Company, without security. The loan was temporary, and was made at a time when moneys were lying idle in the bank and the company's bank account was overdrawn.

The company's chief investments consist of mortgages, $818,459.45 out of $1,000,000 of invested assets being of that class at December 31, 1905, and about one-half being on lands in Manitoba. The applications for these loans are received through the firm of solicitors of which a director, Mr. A. J. Andrews, is a member. They report on the applications, and are paid by the company a commission of 1 per cent on all applications accepted, in addition to the ordinary solicitors' fees, which are paid by the borrower.

Shareholders are allowed a commission of 25 per cent on all insurance taken by them, there being no agent's commission. Policies at special rates of premium have been issued in a few instances.

THE EXCELSIOR LIFE INSURANCE COMPANY.

By letters patent dated August 7, 1889, issued under the Ontario Joint Stock Companies Act, and section 4 of the Ontario Insurance Act, R.S.O., 1887, cap. 167, E. F. Clarke, J. D. Wells, Dr. John Ferguson, William Bell, J. L. Hughes and Rev. William Galbraith were incorporated to carry on business as a life insurance company, under the name of 'The Protestant Life Insurance Company of Ontario, Limited,' with a capital stock of $500,000.

The letters patent authorized the business to be carried on within the limits of the province, but this limitation was afterwards expunged by supplementary letters patent, when the company had it in contemplation to apply for the Dominion license, which was issued on June 23, 1897.

The name was changed to 'The Excelsior Life Insurance Company of Ontario, Limited,' by order in council of December 11, 1889, and was further changed to 'The Excelsior Life Insurance Company' by order in council of December 21, 1899.

The capital originally subscribed was $350,900, on which a call of 15 per cent was made, producing $52,035. In 1904 the balance was issued at a premium of $50 per share, and a call of 15 per cent was made on both capital and premium, producing $22.50 per share, or in all $33,547.50. Of this, $22,365 was credited on capital, making the total paid-up capital $75,000, and the balance, $11,182.50, was carried to profit and loss account. The company was then rapidly extending its business, and it was said to be fairer that the shareholders should furnish the necessary money than that it should be taken from policyholders' profits. The capital would have been impaired but for the premium.

The company paid no dividends until 1901 and has since paid 6 per cent on the paid up capital.

The capital originally subscribed not having been issued at a premium, the usual impairment occurred. In 1892 the Superintendent of Insurance for Ontario refused to treat as an asset an item called 'Commuted Commissions.' This would have increased the impairment shown, and E. F. Clarke, president, Dr. Ferguson, Dr. Urquhart, J. W. Lang and David Fasken, directors of the company, gave their promissory note which was discounted and the proceeds, $5,500 placed to the company's credit with

its bankers as a special deposit. This was treated in the return as part of the cash on hand. It was not, however, shown in the statement of income, and the expenditure shown was less by its amount than the usual expenditure. It was applied in making the following reductions; head office salaries, $1,000; agents' salaries, $1,000; commissions $2,000; agents' travelling expenses, $1,000; agency expenses, $100; office expenses, $100; legal expenses, $200; advertising, $100. Total, $5,500.

To provide a fund with which the directors might be indemnified, an agreement was made between the company and E. F. Clarke, its president, providing for certain yearly payments to him as renewal commissions, which there was no pretense of his earning. An account was then opened under the heading 'Commuted Commissions,' and enough moneys were placed to its credit from time to time to pay the interest on the note quarterly and $600 yearly on account of principal.

To make good capital impairments in 1893 and 1898, the company collected from the shareholders two bonuses of 5 and 6 per cent respectively on their capital. The first was paid by all but two or three small holders. The second was advanced in full by Mr. David Fasken, and he has been nearly recouped by the advance, less the bonus on his own holding.

In the course of explaining and endeavouring to popularize the second bonus, local meetings of shareholders were called together and addressed by the president and secretary. It is suggested that the management were apprehensive of an attempt from outside to take advantage of the crisis, and to make it the opportunity for acquiring the stock of timid and cautious shareholders, in alien interests. Mr. Fasken determined to purchase all the stock that such holders were desirous of selling. He believed it to be a good investment. He invited other directors to join him, but though Messrs. Grass, Gooderham, Gowan and Parker took some of the stock offered, Mr. Fasken practically had the whole occasion in his hands.

Mr. Fasken's holding at that time amounted to fifteen shares only. In November and December, 1898, he increased his holding to 1,010 shares. Subsequently he made further increases as opportunity offered, and on December 31, 1900, he held 1,538 shares. Some of these were afterwards sold to Mr. George Gooderham, and at the date of the inquiry Mr. Fasken held 1,231 shares of the original issue. To his holding of the first issue he added 665 shares of the second issue of capital, made in 1904, making his total holding 1,896 shares. Mr. Gooderham's estate holds 813 shares. These two holdings constitute, therefore, a clear majority of the total capital. Mr. Fasken disclaimed any intention to acquire control and stated that no occasion had arisen which made it necessary to consider whether his present holding gave him such control. He also said that it was uncertain that the Gooderham estate shares would be voted with his.

The capital was again threatened with impairment in the year 1904. The head office building was written up by $10,542.35 and the premium of $7.50 per share on the stock issued that year, amounting to $11,162.50 was got in. With these two items a surplus over capital was shown of $9,341.05.

The head office building was purchased in 1902, but improvements had been made and the rentals received had greatly increased.

During 1900, 1901, 1902 and 1903 the company's return valued its policies, issued on or before December 31, 1899, on the Actuaries Hm. Table with 4½ per cent and policies issued after that date on the same table with 3½ per cent.

At the end of the year 1904 the valuation was made on the same basis, except that policies issued in 1890 and 1891 were brought up to 3½ per cent. At the end of 1905 policies issued in 1892 were also brought up to 3½ per cent.

The management states that it is intended each year similarly to bring up the policies of one preceding year, commencing with 1893, to 3½ per cent. This is the gradual method proposed for raising all its reserves to the statutory basis.

THE HOME LIFE ASSOCIATION OF CANADA.

This company was incorporated in 1890 by Act of Parliament, 53 Vic., cap. 46, and carried on business as an assessment society from May 12, 1892, until July 10, 1899, when an amendment to its Act of incorporation was passed, 62-63 Vic., cap. 114, and it became a regular life company.

By its Act of incorporation a guarantee fund of $100,000 was authorized. Of this $42,400 was subscribed and $5,561.50 paid in thereon in 1892, and further subscriptions were afterwards obtained and payments made on account thereof, until, at the end of 1896, the whole was subscribed and $25,524.14 paid in thereon. In 1898 $26,442.14 was the amount paid in.

The following statement shows the income of the company during the years it carried on business on the assessment plan:—

INCOME.

Year.	Assessments Mortuary and Expense.	Interest.	Guarantee Fund.	Total.
	$ cts.	$ cts.	$ cts.	$ cts
1892	2,049 31	17 00	5,561 50	7,627 81
1893	5,121 79	113 28	2,644 59	7,879 66
1894	9,967 57	137 40	6,225 92	16,330 89
1895	14,711 84	.....	4,879 77	19,591 61
1896	19,618 53	.....	6,212 36	25,830 89
1897	22,245 13	37 80	166 00	22,116 93
1898	23,123 63	382 33	1,084 00	24,589 96
	96,837 80	687 81	26,442 14	123,967 75

In anticipation of the change that was made in 1899, the company in 1898 received, on account of calls to be made on capital to be issued, $4,740, and for premium thereon $1,185, making $5,925 received from prospective shareholders. This, added to $26,442.14, the amount paid in by subscribers to the guarantee fund, made the total contribution on proprietors' account of $32,367.14, and the total receipts of the company down to December 31, 1898, $129,892.75.

Prior to December 31, 1898, the company's death claims had not been excessive, only twenty policies having become claims in that period. The amount actually paid out by the company in death claims in those years was $22,291.22, but the general expenses of the company exceeded $97,000, being more than the total assessments paid in to the company by the insured for both mortuary and expense purposes.

The result was that on December 31, 1898, the company's funds, either on hand or invested, amounted to $9,753.61, which included the sum of $5,925 above mentioned. Notwithstanding these large expenditures, the company's business was not progressing satisfactorily. The insurance in force from year to year was as follows :—

1892, $197,000; 1893, $523,000; 1894, $828,000; 1895, $1,139,500; 1896, $1,254,250; 1897, $1,350,250; 1898, $1,384,880. The increases during the different years were as follows :—

1892, $197,000; 1893, $326,000; 1894, $305,000; 1895, $311,500; 1896, $114,750; 1897, $96,000; 1898, $34,630; total, $1,384,880.

Notwithstanding the large falling off in the increase of business during the later years, the expenses continued steadily to increase from about $5,800 in 1892 to over $15,000 in 1895 and over $21,000 in 1898.

These figures indicate that the company was not succeeding as an assessment society, and that the change from assessment to ordinary insurance was necessitated by the company's experience in the period of seven years during which it was operating.

The company's capital stock was issued subject to a call of 20 per cent and a premium of 5 per cent, making $25 payable on each share. At the end of 1904 all the capital, amounting to $1,000,000, had been subscribed and $167,796 (which included $26,442.14 originally paid in by subscribers to the guarantee fund), had been paid in thereon, and the company had received from shareholders by way of premium on capital stock $36,917.77. In 1905 the paid up capital stock was increased to $216,980 under the circumstances hereafter mentioned.

Before considering the progress of the company on the regular life plan, reference should be made to some transactions which have affected the apparent financial position of the company in certain years.

In 1901 the company purchased a large office building in Toronto, formerly owned by the Freehold Loan and Savings Company. A portion of the land on which the building stands is leasehold and the balance freehold. The purchase price was $175,000, of which $25,000 was payable in cash and the balance secured by mortgage, under which the first instalment of $10,000 on account of principal was due December 1, 1906, and the balance was payable in instalments over an extended period, the interest being 2 per cent for the first five years, 2½ per cent for the second five years, 3 per cent for the third five years and 4 per cent thereafter. After making the necessary adjustments, the company paid $26,030.13 cash on December 31, 1901, at the closing of the transaction. On the same date it added to the ledger value of its equity in the property $73,969.87, making it appear in its books at $100,000, at which figure it was carried into the annual return for the year. On December 31, 1904, the company made a further increase in the ledger value of $85,000, no additional payment having been made on the property meantime. At the suggestion of the superintendent of insurance, a valuation was made by two valuators, who estimated the company's equity to be then worth $125,000, and the asset was placed at that amount in the company's published return for that year.

In 1904 the company acquired $44,000 bonds of the Grand Valley Railway Company, with certain bonus stock, at a cost of $37,710. At the end of that year the market value of the bonds was placed at $46,200, the company taking credit for the difference under the heading, 'Market value of bonds and stocks over ledger value.'

While the Superintendent of Insurance was furnished with evidence that the bonds were worth 105, at which rate they were computed as to market value, your Commissioners think that it is abundantly clear that the bonds should not have been taken into the return at more than the cost price thereof. In fact the management of the following year reduced this asset to its original cost.

In the year 1905 a transaction occurred between this company and the People's Life Insurance Company which makes it important to consider the history and progress of the Home Life. To arrive at proper conclusions, your Commissioners feel that the foregoing increased asset values should be disregarded. At best, these were but fortunate investments of the company's funds, and were not profits derived from its insurance operations. So treating the matter, the company's total impairment of capital at the end of each year, after 1889, was as follows:—

1899, $11,768.63; 1900, $22,506.43; 1901, $37,814.54; 1902, $63,054.87; 1903, $77,210.23; 1904, $108,592.79.

In addition, the shareholders had, as above stated, contributed by way of stock premium, $36,820.67, making the total amount of shareholders' moneys lost by the company in its insurance operations in twelve years' business, ending December 31, 1904, $145,413.46. Besides this, the company was carrying on its books securities of

the Ontario Light, Heat and Power Company at a value of $11,350.70, which were practically worthless, and were so treated by the management in the following year.

The inspection which followed the filing of the company's annual return for 1904 was made by Mr. Blackadar, and the company's position as then disclosed was much discussed between the Superintendent of Insurance, Mr. Blackadar, Mr. Pattison, the managing director of the company, and Mr. Firstbrook, its president. Mr. Blackadar made a special report on the company's business, of which copies were sent to Mr. Pattison and Mr. Firstbrook upon request. The report deals with the general expenses of the company, in paragraphs 8 and 9 thereof, as follows:—

'8. An analysis has been made of the general expenses of the company for the past four years into (1) Commissions, (2) Salaries, and (3) other management expenses. In commissions are included 'commissions to agents,' commissions from renewals, and agents' expenses. In salaries are included executive salaries, salaries of clerks, agents' salaries, directors' and auditors' fees. The other expenses include the taxes and miscellaneous expenses as given in the returns.

Year.	Commissions	Salaries.	Other Expenses.	Total Expenses.
	$ cts.	$ cts.	$ cts.	$ cts.
1901	16,851 06	20,034 97	12,367 84	49,253 87
1902	34,113 92	23,765 52	20,850 25	78,729 69
1903	31,060 22	26,168 75	17,759 21	74,988 18
1904	28,040 18	31,667 09	17,506 12	77,213 39

The premiums have also been separated into first year and renewal premiums as follows:—

Year.	First Year.	Renewal.	Total.
1901	27,365	45,986	73,351
1902	36,890	56,765	93,655
1903	36,138	81,131	117,269
1904	31,938	98,167	130,105

'9. A large proportion of the general expenses is for new business. It may be assumed that 15 per cent of the renewal premiums may be expended in carrying on the old business of the company, and that the balance of the loading, and all the loading upon the first year premiums may be used for procuring new business.

'Of this 15 per cent, 5 per cent may be applied to commissions, 5 per cent to salaries and 5 per cent to other expenses. Assuming these ratios constant, the actual ratios of these expenses in respect to the new premiums will be as follows:—

Year.		Commissions	Salaries.	Other Expenses.	Total Expenses.
		p. c.	p. c.	p. c.	p. c.
1901	New	57.13	64.81	36.79	154.77
	Renewals	5.00	5.00	5.00	15.00
1902	New	84.78	56.73	48.83	190.34
	Renewals	5.00	5.00	5.00	15.00
1903	New	74.73	61.19	37.92	173.84
	Renewals	5.00	5.00	5.00	15.00
1904	New	72.43	83.79	39.44	195.66
	Renewals	5.00	5.00	5.00	15.00

If the gross premiums collected by the company are examined, it will be found that more than the total available 'loading' of these premiums are represented in the above figures, and that the business is being conducted at a loss. The ratios in the 'commission' column appear to be normal, but those in the other two columns are abnormally high, and instead of showing a decrease from year to year, as the renewal premiums increase, these ratios show rather an increase. The management expenses are excessively high in proportion to the amount of business written and retained upon the books.

If these ratios are maintained, it will be but a few years before the remainder of the paid up capital is wiped out.'

Upon the whole your Commisisoners are of the opinion that the company was not, to the knowledge of the management, making satisfactory progress in its insurance business and that the time when the company must make some change or re-arrangement was only postponed by the fortunate circumstance that it had purchased a head office building on which it paid only $26,030.13 in cash and was able to treat it as an asset to the extent of $100,000 the day it was bought, although the price paid was all, no doubt, that the vendor could obtain for it.

Unless some change were made in methods of management, your Commissioners are satisfied that the result which Mr. Blackadar anticipated, viz., that the capital would be wiped out, would soon have been realized, in the absence of assistance by contributions from shareholders, fortunate investment or otherwise.

Mr. A. J. Pattison was the managing director of the company from 1892 to October, 1905, when he and the other members of the board resigned. During the period of his management he had three contracts with the company. The first, dated September 14, 1893, constituted him General Manager for five years with a remuneration of 9⅜ per cent on all assessment receipts for insurance up to $2,000,000 of insurance and 3⅛ per cent on all assessment receipts for insurance from $2,000,000 up to $4,000,000, but no salary was payable until the insurance good on the books of the company amounted to $600,000. The second agreement, dated May 1, 1897, cancelled the previous appointment and made him general manager for five years from January 1, 1897, his compensation to be 9⅜ per sent on all assessments and premiums received for insurance up to and including $2,000,000 of insurance, and 3⅛ per cent on all assessments and premiums for insurance exceeding $2,000,000, until the total compensation reached the sum of $5,000 per annum. The third contract was entered into on a report made by Messrs. Hillock, Diver and King, a special committee of the Board of Directors, appointed to consider the question of remuneration to the manager and the Chairman of the Executive Committee, Mr. John Firstbrook. The report was presented on May 9, 1898, and recommended that Mr. Firstbrook be appointed permanent Chairman of the Executive Committee, and that Mr. A. J. Pattison be appointed permanent Manager of the Association, and that the appointments be life engagements with remuneration substantially as set out in the agreements afterwards entered into with them. From the evidence, including the testimony of Messrs. Diver and King, the surviving members of the Committee, your Commissioners are of opinion that the matters outlined in the report were the proposals of Messrs. Pattison and Firstbrook, and that in this, as in all other matters, the other directors of the company were entirely subservient. On June 21, 1898, the directors of the association met and amended by-law No. 2 of the Association, by providing for an Executive Committee composed of five members and a permanent chairman. The president and managing director were to be *ex officio* members and the other three were to be appointed annually. It further provided that the permanent chairman should be appointed by the Board of Directors for such term as they deemed advisable, and that the board should fix the remuneration to be paid the manager and the permanent chairman. On November 12, 1898, at a meeting of the board, approval was given to contracts with both the manager and the permanent chairman. Thereupon a contract

with the manager was executed, dated November 12, 1898, whereby he was appointed 'Managing Director or General Manager' of the company for fifteen years from the date thereof, the remuneration being based on the annual premium income of the company as follows:—

> Five per cent on premium income up to $50,000; 4 per cent on premium income over $50,000 and not exceeding $150,000; 3 per cent on premium income over $150,000 and not exceeding $200,000; 2 per cent on premium income on all over $200,000.

The agreement contained a provision that, should the services of said manager be terminated for any reason or cause whatsoever before the expiration of the period, except by his death or with his consent or request expressed in writing, the company should, during the balance of the term, pay the full remuneration he would have received under the contract if actually engaged in the service of the company, it being declared by the agreement that the receipt by the manager of the said remuneration for the whole of the period of 15 years was the consideration upon which the agreement was based. The agreement with Mr. Firstbrook as chairman of the Executive dated February 14, 1899, after reciting that he had acted as such chairman for some time without receiving adequate remuneration, that a permanent chairman would be in the interests of the company and that the company was anxious to secure Mr. Firstbrook's services and had offered him the remuneration provided for in the agreement, proceeded to appoint him permanent chairman of the Executive for fifteen years from that date, his remuneration also to be determined by the premium income as follows:—

> 1 per cent on the premium income up to $50,000.
> 1½ per cent on the premium income over $50,000 and not exceeding $100,000.
> 2 per cent on the premium income over $100,000 and not exceeding $150,000.
> 1½ per cent on the premium income over $150,000 and not exceeding $200,000.
> 1 per cent on the premium income over $200,000.

It was further provided that he might resign and retire at any time, whereupon his remuneration would cease, but should he cease to be permanent chairman through any cause other than death or resignation in writing, he was to be entitled to the remuneration during the residue of the period of fifteen years, the agreement declaring that the receipt of the remuneration during the whole of the period was the consideration for his acceptance of the office. Since these agreements were entered into, the premium income of the company and the amounts paid under the contracts were as follows:—

Year.	Premium Income.	Manager.	Chairman.
	$ cts.	$ cts.	$ cts.
1898	2,123 00	1,736 64	.....
1899	26,726 00	1,593 78	.....
1900	56,968 00	2,893 33	578 66
1901	71,931 00	3,940 20	677 09
1902	100,773 00	3,075 00	1,127 21
1903	119,663 00	5,625 00	1,321 67
1904	129,438 00	8,506 09	1,764 16
1905	164,985 00	4,862 89 (To October).	1,716 00 (To October).

The premium income for 1905 is for the whole year and is largely increased by the addition of the premium income of the People's Life Insurance Company, whose business was taken over that year. In 1904 certain sums were voted to the manager for

purposes which will be explained hereafter, in addition to the stipulated remuneration, which, if based for that year on premium income, would have been $5,677.52. He seemed to think it would have increased in the future by about $1,000 each year, on the assumption that the premium income would increase at the rate of about $50,000 per annum. The company's experience does not seem to have warranted any such expectation.

These were contracts which no director or officer having a proper sense of his duty and responsibility could have permitted his company to make.

The Peoples Life Insurance Company was incorporated in 1892, by an Act of the province of Ontario, 55 Vic., cap. 102, and carried on business in that province until October, 1905, when its business was consolidated or amalgamated with the business of the Home Life, under an arrangement whereby the management of the Peoples Life obtained control of the Home Life, and the latter company thereupon re-insured the former's policies. Under its Act of Incorporation the Peoples had no capital stock, and to provide funds to carry on the business was authorized to issue debentures amounting to $20,000. In 1894, by an amending Act, 57 Vic., cap. 99, the amount of authorized debentures was increased to $50,000.

In 1900 the management of the company passed under the control of the Dominion Permanent Loan and Savings Company, that company having acquired Peoples Life debentures in exchange for its own.

Messrs. Stratton, president; Coffee, vice-president; Karn, Kloepfer and Holland were the directors of both companies.

In 1901, by a further amending Act, 1 Edw. VII., cap. 96, the company was authorized to issue what was described as 'debenture stock,' not to exceed, without the consent of the Lieutenant Governor in Council, $250,000, which it was provided the company might, but need not, repay, and which was to share ratably with outstanding debentures of the company on any distribution of the company's assets. Holders of debentures might, with the consent of the directors, exchange debentures for debenture stock.

In 1901 $105,850 of debenture stock was subscribed and paid in, and further debenture stock was issued from time to time, until, at December 31, 1904, the paid-up debenture stock amounted to $250,550, and all the debentures of the company had then been retired.

The company's business had proven to be anything but profitable, the impairment of capital at that time amounting to $221,073.64, leaving assets according to the company's own showing of less than $30,000 to repay the debenture stock then outstanding. For some years the company seems to have been without any real manager or head, and when the president assumed active control of the company's policy in November, 1904, he found its position most unsatisfactory. He seems to have made many changes, and in April, 1905, he installed Mr. J. K. McCutcheon as manager, at a salary of $5,000 per annum, with an additional 1 per cent on the annual increase of premium.

The new manager examined the company's affairs, particularly with respect to the field force, and concluded that the company's position was such that it was expedient to re-insure its contracts and in the process to create a larger corporation. He learned that Mr. Pattison, manager of the Home Life, was in the mind to negotiate, and he first proposed a simple re-insurance by the Home Life of the Peoples Life contracts. This offer was, however, refused. The negotiations continued and were directed towards the obtaining by the persons in active management and control of the Peoples Life the management and control of the Home Life.

It appears to your Commissioners that the refusal by Mr. Pattison to entertain the proposition of simple re-insurance was partly due to Mr. Pattison's state of health, partly to his desire to give up a failing insurance business, and devote his attention to certain railway interests which he, with others, including the president of the company, Mr. John Firstbrook, had acquired, and partly to the fact that the necessities of the Peoples Life afforded an opportunity to make this change with profit to himself and Mr. Firstbrook.

The fifteen-year employment contracts with Messrs. Pattison and Firstbrook seem to have been made to do duty as a basis for negotiating a large money payment to Mr. Pattison for surrendering his position and obtaining the resignation of the president and other directors.

The earlier negotiations were between Mr. Pattison and Mr. McCutcheon, and it was arranged that the capital stock standing in the names of Mr. Pattison, Mr. Firstbrook and the other local directors of the company should be turned over at $25 a share. The market value was then from $18 to $20 per share, and shares could be purchased at that figure. Mr. Pattison demanded a sum of about $110,000 in addition, which, in his evidence before the Commission, he claimed to be the commuted value of the two fifteen-year contracts. The negotiations with Mr. Pattison, which had been commenced by Mr. McCutcheon, were continued by Mr. J. J. Warren, solicitor for the Peoples Life, and finally completed by Mr. J. R. Stratton, the president, who concluded the bargain with Pattison for $90,000 in addition to $25 per share for the directors' stock.

A form of re-insurance agreement was prepared by Mr. Warren to be submitted for approval at the regular quarterly meeting of the board of directors of the Home Life Company, which was to be held on October 11, 1905, at 11 a.m. Various adjournments of this meeting were made and the transaction was not completed till the following day, October 12, at 4 p.m., when the directors of the Home Life tendered their resignations and the new board was elected, J. R. Stratton, D. W. Karn, J. J. Warren, C. Kloepfer, J. R. McCutcheon, J. W. Lyons and J. L. Hughes taking the places of John Firstbrook, Dr. J. S. King, F. Diver, Thomas Elliott, N. F. Dupuis, R. A. Wood and A. J. Pattison, and three of the old board, Rev Dr. Briggs, J. S. King and J. W Curry being re-elected.

An hour or two before this meeting Mr. Stratton obtained from the Traders Bank, on his own cheque on the Bank of Montreal, Peterboro, $90,000 in cash, being the amount which he had some six weeks or two months before, agreed to pay to Mr. Pattison in addition to the price of the stock the transfer of which he was to procure. He also had in cash $29,220, proceeds of a cheque of the Peoples Life, with which to pay for the stock. He attended the meeting at the Home Life office, and when the transaction was ready to be closed went with Mr. Pattison to the Traders Bank, he says to pay over the money. Just before leaving the Home Life office or on his way to the bank, he for the first time suggested that a reduction should be made in the money payment to which he had agreed. He says:—

> 'I intimated to him that it was impossible, not probably, that the arrangement could be carried through if he insisted on $90,000.'

And again:

> 'I told him I thought $80,000 would be all that could be at all arranged in connection with the matter,'

and that while Mr. Pattison thought it should be carried through at $90,000 he finally accepted the smaller sum. Mr. Pattison says that he was told by Mr. Stratton that he would have to reduce the amount from $90,000 to $80,000, which was all that he would pay, and that without any discussion he decided to accept it. He then received $80,000 and $29,220 in addition for the stock, and executed an agreement to transfer to Mr. McCutcheon 1,164 shares of Home Life stock, to assign his contract with the Home Life and to procure an assignment of Mr. Firstbrook's contract. This agreement was expressed to be entered into by him 'for valuable consideration,' although the document had originally been drawn with a space left in which to insert the real consideration. Mr. Stratton kept $10,000, the balance of the $90,000, in cash from the 12th until the 14th October, when he deposited it in the Bank of Montreal at Peterborough to the credit of his personal account, then overdrawn to the extent of $16,000.

After the payment of the money the directors meeting of October 12, 1905, was held, and after the new board was appointed the meeting was adjourned until Friday, October 13, at 2.30 p.m., when the minutes record that Messrs. Stratton, King, Briggs,

Kloepfer, Hughes, Curry, Warren and McCutcheon attended and the reinsurance agreement between the Peoples' Life and the Home Life together with a contract with Mr. McCutcheon employing him as manager were approved.

Mr. McCutcheon's contract appointed him manager for ten years at a salary of $5,000 per annum and a

> 'percentage of 5 per cent on the gross actual premiums collected by the company in each year, such percentage, however, not to exceed the sum of $11,100 in any one year.'

The agreement contained a proviso that

> 'in case of the death of the said McCutcheon or the termination of this contract from any cause whatever the percentage payable to the said McCutcheon, as above mentioned, shall continue to be payable to him or his successors or assigns until the termination of the ten years above mentioned.'

It was admitted that the understanding with Mr. McCutcheon was that his salary should be $5,000 per annum only, and that the percentage on premiums was to provide a fund with which to repay the amount paid to Mr. Pattison over and above the price of the stock. The computation was made on the basis that the sum was $90,000, but it was asserted that this was done before Mr. Pattison agreed to reduce it to $80,000. The agreement, therefore, created a liability against the Home Life Company equivalent to $90,000, charged on the whole premium income of the company, a liability which was not shown in the company's annual return for 1905. Mr. McCutcheon, on the same day, assigned the moneys payable to him under this contract, except his salary of $5,000 per annum, to the Traders' Bank, as security for $90,000, which the bank advanced to him on his demand note, with the assignment as collateral security. The amount of the loan was applied in payment of the amount advanced by the bank to Mr. Stratton the day before on his cheque on the Bank of Montreal, Peterborough, which cheque was thereupon returned to him.

It was stated by Messrs. Stratton, Warren and McCutcheon that it was not intended that the Home Life Company should pay under this contract with Mr. McCutcheon in the shape of commissions on premium income, more than the $80,000 which had actually been paid to Pattison, and that the reduction of the amount paid to him represented a real saving to the company rather than a personal profit to Mr. Stratton. In confirmation of that statement a cheque, dated October 12, 1905, for $10,000 was produced, drawn by Stratton on the Bank of Montreal, Peterborough, in favour of McCutcheon. This cheque was said by McCutcheon, to have been kept by him from the 13th or 14th October, 1905, until the date of the inquiry, in the vault of the Home Life Company in an envelope sealed up and marked, 'Personal property, J. M. McC.' He further stated that when the cheque was handed to him by Stratton the latter said:

> 'Your note is in the bank, $90,000; the matter has been arranged for $80,000. Now, here is the difference between $80,000 and $90,000. The loan is only a temporary loan in the bank. When that is rearranged you have this to apply on that which will reduce it in accordance with your contract to $80,000.'

His explanation of the delay in applying the cheque on the indebtedness was that your Commissioners were then engaged in the examination of insurance companies, and it was expected the Home Life would be called at any moment—an explanation obviously incorrect, as the Commission was not appointed until some months later. Stratton stated that he gave the cheque to McCutcheon to be applied at the time, and that it was arranged by Warren and McCutcheon that it was to be applied to the retirement of the note as it was only a temporary loan with the bank; that the rearrangement had not been carried through at the time, as it was intended to rearrange the whole matter so as to extend the payments to be made by the Home Life over fifteen or twenty years, instead of ten years, and it was still standing in that position, as there might be adverse criticism if the change were made while the Commission was sitting. That the

only reason the transaction was put through with the bank at $90,000 and permitted so to remain was that the papers had been drawn on the understanding that that sum would be paid, and it was not until the last moment that it was known that Mr. Pattison would accept the smaller sum, and it was thought better not to change the papers that had already been prepared. Warren stated that he did not know of the existence of the cheque at the time it was given; in fact he did not hear of it until some three or four months before the inquiry into the affairs of the company in September, 1906, and after the appointment of the Commission. It was then mentioned in a discussion between himself, McCutcheon and Stratton, and he advised that nothing be done with the cheque until the work of the Commission was finished. He says he was told by Mr. Stratton that it was

> 'a cheque he had handed to Mr. McCutcheon in case anything should happen to him, so that Mr. McCutcheon could carry out the understanding between them, that he had been holding it and not applying it in case the bank should ask for payment on account of this temporary loan, he could turn it in in that way and stave things over for three or four months longer; and he understood that it was to be cashed at any time the bank made a call for money.'

The statements of Stratton, McCutcheon and Pattison are not reconcilable with each other, and are very unsatisfactory.

The trend of the evidence as first submitted to the Commission was cautiously confined to the terms of an arrangement involving the payment of $80,000 and no more. The production of the bank's security for an advance to McCutcheon being insisted upon by counsel prosecuting the inquiry, it became necessary to disclose the withdrawal from the bank of the additional $10,000; its retention by Stratton on the 13th of October; its deposit in his overdrawn bank account in Peterborough on the following day and the alleged origin and destiny of the cheque for $10,000.

The inference to be drawn from these transactions and the various accounts given of them by the participants are plain and obvious.

If the cheque was given to McCutcheon in October, which is doubtful, it was not, your Commissioners are satisfied, intended that ultimately the company should pay less than the whole $90,000, or that any person but Stratton should have the ultimate benefit of the $10,000. Otherwise the $10,000 cash itself would have been immediately returned instead of being carried in Stratton's pocket during the whole of the 13th October, 1905, and taken to Peterboro and deposited there on the following day in his own overdrawn account, and the demand note would have been drawn for $80,000 instead of $90,000. Very little importance should be attached to the circumstance that the papers had been prepared. The agreement with the bank could have been made to fit the altered condition by merely striking out 'ninety' and inserting 'eighty,' or could have been entirely retyped as it was less than two folios long, and a whole day elapsed between the payment to Pattison and the completion of the arrangement with the bank.

It was stated by Stratton that the $10,000 would be returned and the transaction rearranged so as to extend the payments to be made by the company over a longer period, as soon as the work of the Commission is completed.

Having regard to all the circumstances your Commissioners are compelled to conclude that what really took place between Stratton and Pattison was that the former demanded and the latter conceded a share, to the extent of $10,000, in the moneys which were being paid to the latter and charged to the Home Life.

In addition to the $80,000, Mr. Pattison at the same time received from Mr. Stratton $29,220, the purchase price of 1,164 shares of capital stock, that amount having been advanced by the Peoples Life as a loan to McCutcheon on the security of the Home Life shares. He distributed it among the transferors, who were the local direc-

tors and the president's brother, paying $25 for each share and an additional bonus out of the $80,000. The distribution appears by the following statement:—

	Capital.	Bonus.
	$	$
R. A. Wood	1,250	500
Dr. J. S. King	1,250	500
F. Diver	1,250	1,250
Rev. Dr. Briggs	1,250	500
J. S. King	1,250	500
W. A. Firstbrook	1,625	250
John Firstbrook	3,375	11,500
J. W. Curry	1,250	500
	1,000	
N. F. Dupuis	1,250	250
Tho. Elliott	1,675	625
A. J. Pattison	12 475	63,375
Adjustment	120	
	29,220	80,000

Pattison also paid Mr. McPhilips publisher of an insurance journal, through whom the negotiations seem to have begun, $1,500, leaving the balance retained by him, $61,875. All the shareholders in the above list were directors of the Home Life Company, excepting Mr. W. A. Firstbrook, whose shares were purchased on the terms indicated pursuant to arrangement with his brother, the president. All the Toronto directors, viz.: Messrs. John Firstbrook, R. A. Wood, Dr. J. S. King, F. Diver, Rev. Dr. Briggs, J. S. King and J. W. Curry were called as witnesses. They all knew that an arrangement was being made between Pattison and Stratton whereby the former was to be paid a sum of money, but none of them was given or sought any information upon the subject except the president who, at one stage, appears to have mildly suggested to Pattison that he might let him know how much he was getting, but he received no information and did not press the matter. The amount paid to Pattison seems to have been a surprise to all. Each director seems to have been dealt with separately in fixing the amount he was to receive and the bonuses seem to have varied only with the degree of suspicion of the director with regard to what Pattison was being paid. The last to be settled with was Mr. Diver, who on being approached said he assumed Pattison was making a good thing out of it, and insisted on receiving a bonus of $1,250. Had the directors known that Pattison was receiving so large a sum as he did the only effect would have been to increase their personal demands upon him. Mr. Firstbrook received more than the rest under colour of his contract with the Home Life, as Chairman of the Executive Committee. He says he regarded it as worth about $25,000, and he bargained for about $15,000, but Pattison valued it at about $22,000 only, and divided that sum by two, because the services would no longer be performed. They compromised on $11,500. Pattison was not willing when examined to name any amount as a fair deduction from the future payments to himself in respect of his own relief from service.

The re-insurance agreement between the Home Life and the Peoples Life provides that the Home Life shall re-insure all outstanding policies of the Peoples as at August 31, 1905, discharge all liabilities in respect thereof, pay all the Peoples head office and agency expenses and assume all its policies written after that date. The Peoples agreed to pay the Home Life the value of its policies computed on the basis of the Hm. table of mortality, at 4½ per cent as to policies issued up to December 31, 1903, and 3½ per cent as to policies issued after December 31, 1903. The contract contained the following provisos:—

> 'Provided, however, that in no case shall the Peoples be in any way bound to pay the re-insuring company a sum exceeding $214,453 and interest thereon, or on such parts thereof as may not be paid, at 3½ per cent per annum.

Provided that the Peoples shall be entitled to deduct from the amount payable to the re-insuring company, in respect of each such policy, a sum by way of initial commission equal to 50 per cent of the annual premium payable to the Peoples under the said policy, provided that such initial commission shall not be less than 50 per cent of $97,883.83, the last mentioned sum being the amount admitted by the parties hereto as the total annual premium income of the Peoples.

Provided further that the Peoples shall be entitled to deduct from the net present value of policies not to exceed $214,453 and interest as aforesaid, the amount of outstanding and deferred premiums as at August 31, $49,100.66, and the amount of advances to agents at the same date $15,763.12, less 10 per cent in each case for cost of collection, and.....the value of office furniture as stated in the last Government report, $2,392.99.'

The agreement further provided that the Home Life should pay the Peoples' Life during the ten succeeding years 7½ per cent of all the premiums collected in respect of the said policies or the policies of the Home Life substituted therefor or

'at the option of the Peoples' in lieu of such 7½ per cent, a fixed renewal commission of $6,350 for any one of the ten years mentioned.'

The gist of the agreement was said to be that the Home Life was to pay to the Peoples one whole year's premium income of the Peoples business. This was divided into two items, one being a deduction of 50 per cent of that income from the reinsurance fund, and the other a series of 7½ per cent commissions or $6,350 annually, for ten years, the latter sum being equivalent to 50 per cent of $97,883.83, the amount agreed to as the annual premium income. Instead of deducting the 'initial commission' of 50 per cent from the reserve paid to the Home Life, a cheque for the amount, $48,942 was given to the Peoples', and that company at the same time gave a cheque to the Home Life for $49,000 in payment of $98,000 of 50 per cent paid up capital stock of the Home Life. The Peoples, in effect, took the stock in satisfaction of half the commission of one year's whole premium income. It will be noticed that no premium was paid on this stock as was the case with other stock issued by the company. Payment of the other half was to be made in ten annual payments. These arrangements were made to prevent any part of the commission from appearing as a liability of the Home Life. The amount paid by the issue of capital stock would cease to be a liability except to stockholders, but the annual charge on premium income of $6,350 a year was a liability of the company which should have been shown in its annual return. It was contended that it should be treated in the same way as a renewal commission to an agent, but the cases are entirely different. Here the sum was fixed, was not subject to any real contingency and was, in fact, a debt then owing by the company, charged on its entire premium income. The mere fact that it was payable in instalments and was secured can make no possible difference. The Home Life, besides paying the whole of the alleged premium income of the Peoples for one year, also took over at 100 cents on the dollar, less 10 per cent for collection, outstanding and deferred premiums, $49,100.66, and advances to agents, $15,763.12. The premium income was based on insurance in force amounting to $2,672,000, whereas the amount in force was only $1,763,000, the difference being made up of lapsed policies, some of which had been carried on the books for some years. Accordingly, at the end of the year the company wrote off $32,000 from the item of outstanding premiums. The valuation in the agreement of the annual premium income at $97,883.83, was admittedly excessive to at least the same amount, and could not have been more than $65,-883.83. This means that the Home Life over paid the Peoples by at least $64,000 or twice $32,000, treating as insurance in force and yielding a premium income, policies which had lapsed and should have been written off.

It was admitted that there will be a loss of at least $8,000 on the item, agents' advances, $15,763.12. It was contended that there was some gain of $52,576 to the

company resulting from released reserves, as the company paid the full reserve on the insurance supposed to be in force, but there seems to be nothing in the agreement to prevent the company readjusting the item in favour of the Peoples, as it is the only item which, under the agreement is fixed at a maximum instead of a minimum figure, it being the only sum the Peoples had to pay. It should also be pointed out that the basis of computation fixed by the agreement gave only a 4½ per cent reserve on policies issued up to December 31, 1903, while under the Dominion Act the reserves on insurance written between January 1, 1900, and December 31, 1903, are required to be computed on a 3½ per cent basis.

A perusal of the agreement definitely indicates that its ruling purpose was to ensure payment by the Home Life of the stipulated amounts, regardless of any disproportion between them and the business transferred.

The agreement and all the surrounding circumstances further demonstrate that Pattison, the managing director, from the beginning to the end of the transaction was actuated by the sole desire of personal gain, and paid no heed whatever to the company's interests, and that the other officers and directors of the Home Life, particularly the president, became and were regardless of the interests of the shareholders and policyholders, whose trustees they were and, corrupted by the desire to share in the 'good thing' which Pattison was supposed to be making, stepped down and surrendered the company to the management of the Peoples, the result of their conduct being that the Home Life was saddled with the following sums :—

Renewal commission of 5 per cent on premium income under McCutcheon contract, equal to	$ 90,000
Cash payment of 50 per cent of premium income of Peoples Life	48,492
Annual payment of $6,350 for 10 years, equal to	48,942
Loss of premium on capital stock purchased by Peoples Life, ¼ of $49,000	12,250
Loss on outstanding premiums	32,000
Loss on agents' advances	8,000
Total	$240,134
Credit released reserves if no readjustment made	52,576
	$187,558

The Home Life received in return $1,763,000 of insurance and an inadequate reserve thereon. Assuming the true premium income of the Peoples to have been $65,883 (which would mean an average of over $37 per $1,000 of insurance), the cost of the business to the Home Life would be 285 per cent of the annual premium income rather than 100 per cent; or over $100 per $1,000 of insurance. This is in contrast with the price of $15 per $1,000 which the Home Life appears to have offered for other business when no personal profit to the officers or directors was involved.

Some light is thrown on the motives underlying this transaction, and much discredit attaches to the colourable use of the fifteen-year contracts by comparing it with a somewhat similar transaction, but without the feature of contracts to be commuted, entered into by some of the same gentlemen on the sale of the business of the Canadian Homestead Loan & Savings Company, of which also they were directors. That company's business had been carried on under Mr. Pattison's management, in conjunction with that of the Home Life, and, therefore, at small expense. After the change in the management of the Home Life Mr. Pattison 'did not see how the Homestead could be continued,' as the company was small, the interest rate falling and the expenses of management and government fees out of proportion to the capital. An offer from the purchasing company was communicated by Mr. Curry to Mr. Pattison, involving a payment to Mr. Pattison of $10,000, in addition to the amounts paid up on the direc-

tors' stock, transfers of which he was to obtain. Out of this $10,000 the following payments were made to directors: Mr. Firstbrook, $600; Mr. John S. King, $100 and Mr. J. W. Curry, $200. Here again the directors, other than Mr. Curry, were not aware what precise sum was paid to Mr. Pattison, but permitted the transaction to be completed, with the indifference incident to their own participation in whatever it was.

The impairment of Home Life capital at the end of 1905, according to the company's annual return, amounted to $86,200, and had the commission to be paid to the Peoples and McCutcheon been shown as liabilities, as they should have been, a real impairment of $207,000 would have been shown, leaving the capital at less than $10,000.

While the re-insurance agreement provided that the policy reserve should be transferred to the Home Life as and when that company issued its substituted policies, the transfer was actually made on January 25, 1906, by two cheques of the Peoples, dated December 30, 1905, one being for $9,701.83, which was the balance standing to its credit in the bank, and the other, bearing same date, for $15,064.11, being drawn on the Dominion Permanent Loan & Savings Company, which loaned that amount to the Peoples, but not until January 25, 1906. In the company's annual return for the year 1905 it treated these payments as having been made on December 31, 1905, although not made till afterwards, and although no liability then existed on the part of the Peoples to pay the amount, inasmuch as the policies had not then been re-written by the Home Life.

In 1903 the company purchased bonds to the amount of $13,000 par of the Grand Valley Railway Company, then in process of construction, at 85, with a 50 per cent bonus of stock. In 1904 and 1905 advances were made to the Von Echa Company, the contractors building the road, amounting in all to $51,000, of which there remained due at December 31, 1904, $44,712.16. On that date $18,052.16 was repaid, and in pursuance of an arrangement with the Canadian Homestead Company, bonds of the Grand Valley Railway Company to the amount of $31,000, with a 50 per cent bonus stock were handed over for the balance. The contractors really gave a 100 per cent bonus of stock. The remaining 50 per cent was appropriated by Mr. Firstbrook and retained by him until the management of the Peoples came into control. Investigation by the new management resulted in a demand upon and restitution by Mr. Firstbrook.

On February 11, 1903, at a meeting of directors at which Messrs. Firstbrook, Briggs, Boddy, King, Dr. King, Hillook, Curry, Diver and Pattison were present, on motion made by Dr. Briggs, seconded by Mr. Boddy, it was resolved:—

> 'that the manager be authorized to purchase 200 shares of Schloss Sheffield Steel and Iron stock at the market price.'

Pattison states that he expressed doubts as to the propriety of such an investment, and that he afterwards consulted the president or vice-president, and was told that he could not question the instructions of the board. Accordingly on February 20, 1903, he bought 100 shares of the stock at 71¼. While he doubted the propriety of the investment, he did not doubt its wisdom, as on the same date he bought some shares of the same stock on his own account. On December 31, 1903, he passed his own cheque to the company for the cost of the stock and purported to be a purchaser of it until January 2, 1904, when it reappeared in the books as the property of the company. This was done because he thought the superintendent would not permit the investment.

Following the making of the annual return the company's books were examined by Mr. Blackadar, who reported the purchase circumstances in February. He stated that the directors were aware of the impropriety of the security and that he had demanded a retirement of the stock and a reimbursement of the company's moneys at their hands. On June 30, 1904, the managing director wrote the superintendent that the investment had been disposed of and was represented by a special deposit of $7,125 in the Dominion Bank at Toronto.

It appears that some of the directors made a promissory note and borrowed the necessary amount from the Dominion Bank, giving the stock as security. The pro-

ceeds were arranged to be credited to a special account. The stock was sold in June, 1905, for $6,100, the proceeds being credited on the note. This involved a loss, including interest, of more than $1,200, which was charged to Pattison's account. Two resolutions of December 19, 1904, and September 20, 1905, were passed by the directors, for the purpose of reimbursing Mr. Pattison in respect of this charge and certain other interest items charged to him for which he was clearly personally liable. This intention in both cases took the disguise of rewarding him for services for which he had already been paid the contract price, disinterring these services from the dust of twelve years in one case and ten years in the other. On the change of management objection was taken to the payments made under these resolutions and Mr. Pattison and the other directors paid the company in 1906, as follows: Messrs. Briggs, Pattison, Curry, Firstbrook, $165 each; Messrs. Boddy, King, Diver and Wood, $147.23 each, to cover the Schloss stock loss, and Mr. Pattison $1,410.31 to cover the interest charges referred to.

THE GREAT WEST LIFE ASSURANCE COMPANY.

This company was incorporated in 1891 by Act of Parliament, 54-55 Vic., cap. 115. There has been no amendment.

It was promoted by Mr. James H. Brock, then a member of the firm of Carruthers & Brock, fire and life insurance agents, and the Winnipeg agents of the Canada Permanent Loan and Investment Company. His idea was to establish a company with its head office in Winnipeg, there being then no company with headquarters west of Ontario. He anticipated low mortality and good rates of interest. The prospectus emphasized these considerations, stating that an average rate of interest might be expected from one to two per cent above the average rate obtained by any company then represented in Canada.

The authorized capital was $400,000, but power was given to increase it to $1,000,000. By December 31, 1893, all the authorized capital was subscribed and 25 per cent had been paid in. In June, 1903, the company increased the authorized capital from $400,000 to $1,000,000. Of the $600,000 new stock $400,000 was on July 18, 1903, offered to and taken by the then shareholders in the proportion of one new share for each old share and at a premium of 25 per cent. It was called up to the extent of 25 per cent, making $31.25 per share, of which $6.25 was premium. The other $200,000 was offered on September 4, 1903, to the company's agents for subscription by themselves or by parties in their respective districts, at a premium of 60 per cent. It also was called up to the extent of 25 per cent, making $40 per share, of which $15 was premium. Altogether there was thus paid in $150,000 added to the paid up capital and $55,428.75 premium.

The reason given for the increase of capital was that the additional strength would put the company in a better position to obtain business, and it was stated that the agents of the company had urged the management to make the increase. There was no impairment of capital at the time. The original impairment resulting from expenditures in the course of establishing the business entirely disappeared in 1898. It was greatest in 1894 when it amounted to more than $30,000. Nor was the additional capital required for the strengthening of reserves required by the Act of 1899. Prior to 1900 the company had valued all its policies on the Actuaries' Combined Experience Table with 4 per cent, and it has continued to value its policies issued before that year on the same basis, the policies issued since being valued on the Actuaries Hm. Table with 3½ per cent. The dividend paid to shareholders, which in 1902 was increased to 8 per cent, indicates that the management considered the company's position to be good. This was also indicated by the fact that certain shareholders, including the managing director, purchased the shareholders' rights to the new issue of stock, at a premium higher than that at which it was issued. The man-

aging director bought additional shares in November and December, 1903, and in January, 1904, paid 187 for the last 40 shares acquired by him.

The manager states that prior to the formation of the company he did not intend to assume that position, but that he was prevailed on to do so by the other persons then chiefly interested. For some time after taking the position he remained a partner in the firm of Carruthers & Brock and his remuneration as manager of the company was treated as part of the firm's income. Later he parted with his interest in the firm and devoted himself exclusively to the affairs of the company.

The manager's salary for 1892 was $2,000; for 1893-4-5, $3,000 per annum; for 1896-7, $4,000; for 1898, $5,000; for 1899 and 1900, $6,000; for 1901-2, $7,500, and for the years 1903-4-5, $10,000.

The increases were not provided for in advance, but were voted as bonuses at the end of each year.

On February 6, 1906, the executive committee increased the directors' fees from $5 to $10 per meeting. They also increased the salaries of many of the officials and servants, including the managing director. The latter's salary was increased to $1,000 per month, and he was voted $10,000 cash to compensate him for the lower salary paid him in the early years. The salary of Mr. Jardine, secretary, had been advancing at the rate of $500 a year for some years and was increased from $4,500 to $5,000. Increases were also made in the salaries of the accountant, the inspector of investments, and the claims and loans clerk.

The resolution providing for these increases had not been submitted to the directors at the date of inquiry, but it was stated that any directors' meeting would be attended by one director only in addition to those composing the executive committee. The annual meeting of shareholders was held on February 9, three days after the resolution was passed, but the action of the executive was not disclosed to the meeting. In explanation of the substantial bonus and increase of salary to Mr. Brock, he stated that he had assumed the duties of managing director at a financial sacrifice, that it was always understood he should at some time be compensated, and that the action of the executive committee would probably commend itself to everybody interested in the company. It was also stated that the secretary had served the company during the earlier years at a much less salary than he could have commanded elsewhere.

The company paid no dividends on its capital prior to 1900. In that and the following year 6 per cent was paid; in 1902, 8 per cent; subsequently 10 per cent, and in 1906, 12 per cent.

There is no provision in the incorporating Act or in the by-laws governing the apportionment of profits to policyholders. There is no appropriation of profits made until the period arrives when they are to be paid, and no account is kept with the individual policyholder.

The company has written a large amount of deferred dividend insurance, the period of distribution being 15, 20 and 25 years. The manager considered a policy with a 5-year period better than policies with longer periods, but thought the public preferred the latter. It appeared, however, that no effort was made to introduce the short period policy, the management fearing there would be no profits to divide at the end of 5 years. The only rates quoted for tontine policies were in respect of 15, 20 or 25 year periods. The manager stated, however, that agents were in a position to quote rates for quinquennial policies and that a limited number of such policies had been issued but that on the advice of the actuary the rates had been intentionally omitted from the rate book. None of the longer term policies have yet reached their periods, but some will reach their period next year.

By a circular of March 19, 1903, an opportunity was offered to policyholders to increase their insurance within that month at a discount of one-third the first premium. This seems to have been proposed without reference to the company's agents and no commission was paid for insurance so effected. The plan was defended on the ground

that the business induced by it was more cheaply obtained than it could have been in the regular way. The offer does not seem to have been appreciated by policyholders and apparently was not repeated.

From time to time extra commissions or bonuses have been distributed among local agents to stimulate business. These were described as 'hot weather bonuses,' but do not seem to have been confined to any particular season of the year. In some cases they were offered in October or November for business written prior to December 31. The first prize offered seems to have been a gold watch worth about $125. In 1897-8 graded bonuses were given, the highest being $75, in addition to regular commissions, to any agent writing $30,000 between October 1 and December 31. In addition, special prizes of $50, $25, $15 and $10 were given to the four agents writing the largest amounts of paid for business in the same period. In 1899 the prizes were bi-monthly throughout the year, and were $15, $10 and $5. In November, 1900, the company offered prizes of $100, $50 and smaller amounts for business written prior to December 31. The latest competition was current at the time of the inquiry. It extended over a period of nine weeks, beginning July 1 last. The rewards ranged downward from an extra commission of 10 per cent.

The company issues to agents in the larger cities a schedule of confidential rates which may be quoted for non-participating policies for $5,000 and over. They are considerably less than those shown in the company's manual, and a special rate of commission is paid, a low first commission without renewals. The managing director stated that the commission allowed was ten per cent, but from circulars issued it appeared that while 10 per cent was the commission paid to outside agents, regular agents were paid from 10 to 20 per cent, the latter rate being paid under 'exceptional circumstances' only. It was explained that this schedule was issued to meet the competition of the Travellers' Insurance Company of Hartford, which had issued a similar confidential schedule.

In the beginning of 1906 the company appointed J. S. H. Matson manager for Vancouver Island. He had previously been the general agent of another company. He stipulated for, and the managing director agreed to pay, a commission of 10 per cent in addition to the usual commission on all insurance which he procured to be substituted for insurance written by the other company. The managing director quite understood that the 'switching' would involve the surrender by the agent to the assured, in whole or in part, of his first year commission. There was ill-feeling on Matson's part towards the company whose service he had left, and Mr. Brock took advantage of that ill-feeling, and the commissions were intentionally made sufficiently large to enable Matson to make the transfer attractive to the assured. Before the agreement was finally reduced to writing, Matson raised his terms, other companies desiring to secure services so exceptional, and bidding against the Great West, and the extra commission was made to apply to all business written by him, provided he wrote over $150,000 new business each year.

On July 12, 1894, an agreement was made with the Dominion Safety Fund Life Association to reinsure the latter's policies. That association's head office was at St. John, N.B. It had outstanding 1,101 policies, insuring $1,320,000. Its policies were term policies, at increasing term rates of premium, with $3 per $1,000 for expenses. The assured contributed $10 per $1,000 to a safety fund, payments made in each year being held for those insuring in the year. After five years the interest on the fund was to be applied to reduce the premiums. When the policies contributing to the fund had been so thinned out by deaths and lapses that their total did not exceed the amount of the fund, the principal was divided among them, the policies being surrendered. The fund was to provide moneys with which to maintain the government deposit. The ownership of the fund by the policyholders was, however, of its essence, and their contracts secured them in such ownership. The consideration for the contract of reinsurance was the payment to the Great West of $25,000 out of this fund. It is worthy of notice that in no other case of amalgamation that has come before the Commission

has there been a payment to the company securing the transferred business. To obtain a release of the fund, it was necessary that the policyholders who owned it should either accept new policies or release their claims to the fund. By the agreement it was made the duty of the Great West to obtain, with the assistance of the Dominion Safety Fund, the acceptance of new policies. Mr. J. de Wolfe Spurr, who had been president of the Dominion Safety Fund, became chairman of the local board of the Great West at St. John, and issued circulars to the policyholders soliciting their concurrence in the substitution. The circular stated that

> 'this re-insurance contract preserves inviolate every right and privilege of our policyholders, and no interest of any one of them will be allowed to suffer in even the slightest degree by reason of this change.'

While the circular is signed by Mr. Spurr as president of the Dominion Safety Fund, it states that he will in future represent the Great West at St. John in the capacity of chairman of its local board, and will assist in effecting the necessary substitution.

Your Commissioners are quite satisfied, notwithstanding the managing director's apparent inability to recollect clearly all the circumstances, that this circular was issued with his knowledge and approval, and that the fact of the intended spoliation of the fund was deliberately withheld from the knowledge of the policy-holders to whom it was addressed. The $25,000 was treated as premium on first year business, and the company claims to hold it free of all claims of the old policy-holders. The transaction does not reflect credit on any of the parties to it.

There is a large number of policies under the heading 'not taken' in each year. In its last return they amounted to $1,089,500, the new policies issued being only $6,220,833. It was stated that in most of these cases the premium was paid by promissory note and that on the note maturing and remaining unpaid, the policy was treated as not taken. Nevertheless the company insisted, so far as possible, on payment of the notes, and between July, 1905 and July, 1906, the company realized from such notes $7,200, credited in the return as first year premiums. The notes are not disclosed in the return.

The company's original estimates were exceedingly high. For instance, on a 20-year endowment policy for $1,000, at age 55, the estimated profits were $1,930. The estimates were considerably reduced in later rate books.

THE NORTHERN LIFE ASSURANCE COMPANY OF CANADA.

This company was incorporated in 1894 by Act of Parliament, 57-58 Vic., cap. 122. Two years were spent in obtaining subscriptions for stock, and a Dominion license was obtained and active operations commenced in July, 1896. The capital stock is $1,000,000, of which at the end of 1905 $836,800 was subscribed and $213,850 paid. The capital payment has not been called, but shareholders have been permitted to pay the whole or any part of their subscriptions. This has occasioned considerable dissatisfaction, resulting in the passing of a by-law which will require notice.

The stock was not issued at a premium, so that there has been a larger impairment than in the case of later companies, which have adopted that method. The impairment increased from year to year until, at the end of 1902, it amounted to $64,400. It had been apparently reduced by the end of 1905 to $21,926.64. This resulted from payments by a director made under the following circumstances.

Mr. D. P. Fackler, the company's consulting actuary, investigated its position as of December 31, 1902. He advised the method of making the apparent reduction of impairment which was adopted.

On August 28, 1903, Mr. John Ferguson, a director, made an agreement with the company by which he paid $10,000 for a 2 per cent commission upon all renewal premiums, subject to the company's right to terminate his receipt of the commissions

when his purchase money and 5 per cent interest had been repaid, the return of which was given priority over all capital stock liability in case of a winding up. Similar agreements were made on February 26, 1904; August 19, 1904; January 24, 1905; July 12, 1905 and February 23, 1906.

The company received from Ferguson $10,000 in 1903; $20,000 in 1904; $19,500 in 1905, and $10,000 in the first six months of 1906. All these moneys were ostensibly paid to purchase commissions upon the renewal income. All of them were applied by the company in reduction of different expense accounts. Mr. Ferguson received in the so-called commissions, $3,123.82 in 1904; $7,312.08 in 1905, and $4,442.39 in the first six months of 1906. The balance which the company was bound to pay for a release of the premium income was $44,621.71 on July 12, 1906. The payments to Ferguson were treated as agent's commissions, and not returned separately. Neither moneys paid by Mr. Ferguson nor the obligation to repay him appeared in the company's returns, and they showed expense balances only after the true expense had been reduced by the application of the Ferguson payments.

By this means the assets were apparently increased and the capital impairment apparently reduced. This was, your Commissioners think, improper. It made the return misleading in respect of income, expenditure, assets and liabilities.

In 1901, much of the subscribed stock was entirely unpaid. In that year some of it was forfeited by the consent of the subscribers and some of the rest, amounting to 1,297 shares, was transferred to Mr. T. H. Purdom, then the vice-president, in trust. This is said to have been done because of a supposed movement in some indefinite quarter to purchase control. In 1903 pursuant to resolution, transfers were made to thirteen of the directors, of eighty-six shares each, subject to call. The balance, 179 shares, was permitted to remain in the name of Mr. Purdom in trust. He says he holds this for the company. This division amongst the directors substantially increased their voting power, and while there is a large share list, indicating that the capital is fairly well distributed, it was admitted that the directors acting together are practically in a position to control the affairs of the company.

Policyholders may vote in person on all questions except the increase, issue, allotment or sale of the capital stock of the company, but on no occasion has any policyholder ever indicated any desire to take part in the management.

In 1905 it was expected that a stock dividend would soon be possible.

Some of the shareholders who had paid in more than 10 per cent seem to have been informed by the agents who took their subscriptions, that they would be allowed interest on any money in excess of 10 per cent which they paid in before profits were divided. In consequence of this and of a feeling that some preference should be given to shareholders who had paid in more than 10 per cent. a by-law was passed by the directors on December 12, 1905, and confirmed at the annual general meeting of shareholders on February 5, 1906. It provided that shareholders might pay up the whole or any unpaid portion of their stock with a premium of 25 per cent. The premium was made payable in cash but the balance of the capital might be paid in four equal payments at three, six, nine and twelve months, with interest from January 1, 1907. Alternatively, the shareholder might, if the directors thought fit, receive a new paid-up certificate for the amount paid in, transferring the unpaid portion of the shares to an officer to be held in trust for the company until sale or reallotment. Dividends were to be based on the amount paid, exclusive of premium, and those who had paid in more than 10 per cent were to receive 12 per cent on such excess in addition to the regular dividends, which were limited to 4 per cent until the special dividend.

Under this by-law the company had received, up to the date of the inquiry, premiums on stock amounting to about $15,000, but the stock itself was not paid up, the interest provision making it to the advantage of the shareholder to delay payment.

The passing of the by-law was due to the absence of uniformity in the treatment of shareholders, and its validity was recognized as doubtful.

It is to be regretted that the neglect to adopt proper businesslike methods should have resulted in a by-law the validity of which is questionable. Should it prove invalid a highly complicated situation must be faced, and possibly legislation will be found necessary.

Some of the directors are substantially interested in the Dominion Savings and Loan Company, the head office of which is also in London. Mr. T. H. Purdom, K.C., is president of both companies, and Messrs. John Ferguson, John Purdom and Francis Love are directors on both boards. The insurance company from its incorporation down to the date of the inquiry had large sums on deposit with the savings company, during the greater part of the time dividing them between a general and a special account. The latter was opened in 1898, when it was agreed that the company should keep $75,000 on deposit in a special account for three years, being allowed interest at 4 per cent half yearly. The pretension was that this was equivalent to the purchase of debenture but your commissioners do not yield to that view. In 1903, owing to objection by some of the directors, substantial withdrawals were made. The following statement shows the amounts deposited in the accounts at December 31 in each year commencing with 1898 :—

	General account.	Special account.	Total.
	$ cts.	$ cts.	$ cts.
31st December, 1898	51,538 50	76,500 00	128,039 50
" " 1899	27,209 86	79,590 60	106,800 46
" " 1900	33,947 06	82,806 04	116,753 10
" " 1901	16,720 83	75,000 00	91,720 83
" " 1902	7,672 81	72,500 00	80,172 81
" " 1903	33,559 20	10,000 00	43,559 20
" " 1904	28,793 71	27,652 19	56,445 90
" " 1905	17,974 39	39,796 00	57,770 39

The company purchased $5,000 Canadian Pacific Railway stock in 1903, but resold it at a profit of about $400 when it was found to be unauthorized. It also invested $20,000 in British America and Western Fire Insurance stock, which, though authorized under the Act, the management does not, in the light of its experience, regard it as a judicious investment. The company sustained a loss of about 50 per cent.

THE IMPERIAL LIFE ASSURANCE COMPANY OF CANADA.

This company was incorporated in 1896, by Act of Parliament, 59 Vic., cap. 50, with a capital of $1,000,000, divided into shares of $100 each. The incorporators were John Hoskin, Hon. S. C. Wood, H. N. Baird, Henry O'Hara, J. W. Flavelle and Hon. William Harty. It commenced business on October 1, 1897.

The stock was issued at $125 per share and three calls were made, producing $45 capital and $11.25 premium on each share.

Although the list of shareholders indicates that the capital is fairly well distributed, it would appear that 7,318 out of the 10,000 shares are owned by the Central Canada Loan & Savings Company, which is entirely under the control of the Hon. George A. Cox. The 7,318 shares stood at the date of the inquiry in the following names, but all dividends on them are paid to the Central Canada pursuant to directions signed by the nominal holders.

H. N. Baird	50
F. W. Baillie	260
T. Bradshaw	450
Hon. G. A. Cox	250
F. G. Cox	950

H. C. Cox	50
E. W. Cox	50
Central Canada Loan & Savings Co	1,892
A. L. Davis	100
T. J. Drummond	50
Dominion Securities Corporation	500
J. Housser	125
R. Hall	235
W. S. Hodgins	300
J. J. Kenny	450
E. T. Malone	35
W. G. Morrow	100
G. A. Morrow	250
R. E. A. Moody	202
Rev. J. Potts	50
E. R. Peacock	300
F. C. Taylor	200
E. R. Wood	469
Total	7,318

The participating policyholders of this company have no right to vote, so that the control of Mr. Cox, through the Central Canada, is absolute. The effect of distributing the Central Canada shares is to create the impression of a general control by a considerable body of shareholders, each having a real voice in the management. Two of the directors, Messrs. T. J. Drummond and George A. Morrow, qualify on the shares which they hold for the Central Canada, although subsection 2 of section 5, of the Act of Incorporation provides that no person shall be a director unless he holds in his own name and for his own use at least 50 shares of the capital stock of the company.

The control of the company was governed, from January 2, 1902, to May, 1903, by the terms of an agreement between the Central Canada and Messrs. A. E. Ames and Thomas Bradshaw, made on the earlier and rescinded on the later date. The circumstances under which the agreement was made were detailed by Mr. Cox during the inquiry into the affairs of the Canada Life, and by Mr. Bradshaw during the inquiry into the affairs of this company. It was the result of negotiations carried on mainly between Messrs. Cox, Flavelle and Ames. The Central Canada was described in it as vendor and Messrs, Ames and Bradshaw as purchasers. By it the purchasers agreed to buy at an advance of 50 per cent over the amount paid up, 1,700 out of 5,350 shares then owned by the vendor, which, added to 1,950 then held by the purchasers would make the vendor and the purchasers equal holders, each of 3,630 shares. On account of this price $7,750 was to be paid in cash and the balance on the termination of the agreement. The agreement was for two years and afterwards was to continue operative until determined by one year's notice in writing given by either party after the expiration of the two years. Each party was to continue to hold 3,650 shares, unless they agreed to a reduction of their total holdings to 5,100, a clear majority of the capital; any reduction agreed upon to be in equal amounts, unless otherwise agreed. Neither party was to increase the agreed holding without giving notice and affording an opportunity to the other to take half of the increase. The parties were to agree on the composition of the directorate, but if unable to do so each party was to elect an equal number and if they left a vacancy each was to name one person and the choice between the two so named was to be left to arbitration. They were to endeavour to agree on all questions that might arise. If they failed, and either party desired an adjournment, both were to vote for it, and if still unable

to agree, they were to leave the question to arbitration. For the guidance of any such arbitrators it was declared that the best interests of the company and its policyholders and shareholders generally were to govern their decision without regard to majorities or minorities or to the special interests of the parties. It was further provided that the notice to terminate the agreement should contain as an essential part thereof an offer to sell all the shares held by the party giving the notice, or to buy the shares held by the other party at a named price. The party receiving the notice was to have three months to elect, and the purchase or sale by him was to be completed in three months after election. On June 3, 1903, the firm of A. E. Ames & Co., of which Mr. Ames was a partner, suspended payment. In May preceding, Mr. Ames, owing to his financial embarrassment, desired to realize upon his interest in Imperial Life holdings. Mr. Bradshaw was unwilling to part with his interest. It was finally arranged that Mr. Cox should pay Mr. Ames about $23,000 and Mr. Bradshaw about $43,000 for the cancellation of the agreement. Mr. Cox has since, through the Central Canada, continued in sole control of the company. The circumstances attending the making of this agreement and its rescission indicate the value placed by Mr. Cox upon such control. He 'reluctantly consented' to make the agreement referred to under some pressure by Messrs. Flavelle and Ames, Mr. Bradshaw, the secretary of the company, in whom they were interested, not being entirely satisfied with his position under the individual control then existing and foreseeing the possibility of amalgamation or some other alteration which might affect his interests. Mr. Cox took advantage of the first opportunity to regain control at a very considerable cost. This payment and certain other payments hereafter discussed, made by Mr. Cox to reduce expenses and cover up losses, were not because of the intrinsic value of the shares as an investment, but partly because of his personal interest in his son, the managing director, and partly because of his ambition to direct the financial transactions of the company, by means of a board under his absolute control.

Mr. Cox, in his evidence in the Canada Life inquiry, frankly admitted that he brought about the incorporation of the Imperial Life for the purpose of creating a position as managing director for his son, Mr. F. G. Cox, and that his object in that regard was known to the persons who joined him in the incorporation of the company. Pursuant to this purpose, Mr. F. G. Cox was at the very beginning appointed managing director and vice-president, and he continued to occupy these offices down to the date of the inquiry. His salary until the end of 1904 was $6,000, and afterwards $8,000. During nearly all this time, the real management of the company seems to have been vested in Mr. Thomas Bradshaw, the secretary and actuary of the company, and for some years past one of its vice-presidents. His salary to 1900 was $2,500; to 1902, $3,500; to 1905, $5,000, and for 1905 and 1906, $6,000.

From and including the year 1901 the company made certain special advances to a few of its general agents for the purpose, it was said, of retaining their services. They were made by the directors on the verbal guarantee of Mr. Ames. The accounts with the agents were kept as current accounts, showing advances and repayments; the balances being as follows: 1901, $3,412; 1902, $8,509.31; 1903, $11,404.03; 1904, $9,512; 1905, $6,546.35.

On December 31 in each of the years 1901 and 1902, Mr. Ames gave his cheque for the balance then due, and on the 2nd of each January following a cheque was returned him for the same amount; neither the receipt nor the payment being shown in the annual returns for those years.

In 1903, Mr. Ames' financial position having altered, Sir Mackenzie Bowell, Hon. S. C. Wood and Mr. Bradshaw waited on Mr. Cox and explained to him the position of this account, and he thereupon, according to the understanding of the committee, agreed to assume and finally discharge the liability. On December 31, 1903, he gave the company his cheque for the balance then due. He seems, however, to have taken a different view, as he expected and demanded repayment of the amount in the January following. The matter came up at a meeting of the executive committee of the com-

pany on August 3, 1903, when Messrs. S. C. Wood, H. N. Baird, J. J. Kenny, F. G. Cox and Thomas Bradshaw were present, when, on motion of Mr. Kenny, seconded by Mr. Baird, the following resolution was passed:—

> 'Whereas the Hon. George A. Cox paid to this company in December, 1903, the sum of $11,404.03, being the amount appearing in the books of the company as due by agents for advances, several members of the executive committee understood that Mr. Cox assumed this indebtedness on the part of the agents, and expected to be recouped from time to time as these advances were repaid, and the annual report for 1903 therefore shows nothing due on these accounts so far as the company was concerned, the duty of the company simply being to collect the moneys due and hand over the same to Mr. Cox; and whereas the Hon. George A. Cox states that such was not the understanding, that he simply advanced the money as a temporary accommodation, and that it should have been returned in January last, and that he would not have made the advance on any other terms; and whereas it must be assumed that Mr. Cox is right in his contention, therefore the chairman and managing director are hereby instructed to repay Mr. Cox the money so advanced; that as the money was deposited with the Central Canada Loan and Savings Company at Mr. Cox's request, and allowed to remain on deposit with such company at his request, the adjustment and payment of the interest must be made between that company and him. Note: It has since been found that the above money was deposited to the company's credit in the Canadian Bank of Commerce, and the payment of interest by this company to the Hon. George A. Cox is, therefore, authorized. Confirmed, S. C. Wood, chairman.'

Thereupon the amount paid by Mr. Cox in December, which had been credited to the company in a special account in the Canadian Bank of Commerce, as above indicated, was repaid to him with interest. At the end of 1904, the balance of this account, $9,512, was written off, and was not treated by the company as an asset in its return for that year. In 1905 further repayments made by agents reduced the account to $6,546.35, and it is expected that the company will not sustain any loss.

Shortly after the creation of the company, Messrs. Cox, Flavelle and Ames agreed to pay moneys into its funds from time to time to assist in meeting expenditures connected with the establishment of its business, and accordingly the following sums were paid: 1898, $7,000; 1899, $10,000; 1900, $5,000; 1901, $10,000; 1902, $35,000; 1903, $24,000; making in all $91,000. The payments from 1898 to 1900 inclusive were applied to the reduction of the expenditure in respect of officers' salaries. The payments from 1901 to 1903 inclusive were spread over many items of expenditure, making some reduction in almost all the expense accounts. These moneys were never shown in any annual return, the returns, on the contrary, showing expenditures less by the amount of these moneys than their real amount. The argument was that these moneys were an absolute gift for the express purpose of meeting expenses which might not otherwise have been incurred and not in the regular course of business.

Your Commissioners entertain no doubt that in making the return required by law it was the clear duty of the officers of this company to disclose fully all these payments and the total expenditures at their real amount.

The company first became interested in the bonds of the Sao Paulo Tramway Light and Power Company on December 19, 1900, when it loaned $30,000 upon $60,000 of them. This was part of a total loan of $100,000 on $200,000 of the bonds. The loan was guaranteed by the National Trust Company. The balance of the loan, $70,000, was advanced on January 2, 1901, the company not having in hand in December the whole amount necessary. Yearly renewals of the loan were made in December in each of the years 1901, 1902 and 1903, and it was paid off in 1904. The rate of interest each year was 6 per cent with an additional 1 per cent commission, making a 7 per cent investment. On December 31, in each of the years 1901, 1902 and 1903 the National Trust Company went through the form of paying off the loan, the amount

being returned on January 2 following. It is argued that this practice was justified in the case of this loan by a stipulation made when the money was advanced. This does not appear to lessen its impropriety.

The company on March 30, 1901, made an advance of $50,000 on the security of $56,000 of the Sao Paulo bonds and $56,600 of Sao Paulo common stock to Mr. J. W. Flavelle, who from the incorporation down to 1900 had been a director and vice-president, and had taken a very prominent part in the company's affairs, but had ceased to hold office at the end of 1900. He still remained a shareholder. This company's Act expressly incorporates the provisions of the Companies' Clauses Act, which, by section 38, prohibits loans to shareholders, and therefore the transaction was an improper one. At December 31, 1901, while the loan was still current, Mr. Flavelle went through the form of paying off the loan, giving the company his cheque. The money was repaid him on January 2, 1902. The company exercised the option and purchased the bonds and stock in 1902. The stock was sold for $7,912.50, which was credited to profit on investment. The $50,000 bonds, together with $75,000 bonds purchased on May 8, 1902, from the Central Canada Loan and Savings Company, were carried until December 29, 1905.

In the months of May and June, 1903, advances were made to A. E. Ames & Co., who were then in embarrassed financial circumstances, suspending payment on June 3, 1903, as follows: May 21, $40,000; June 5, $28,700; June 10, $2,400; making in all $71,100.

Mr. Ames was then the president of the company, but shortly after, on June 12, resigned, his resignation being accepted on June 15. Mr. Cox was assisting him in dealing with his embarrassed affairs, and arranged with Mr. Bradshaw that the company's cheques should be given to Mr. Ames, Mr. Cox undertaking to hand over 4 per cent debentures of the Toronto Savings and Loan Company as security. That company was organized by Mr. Cox in 1885 for the purpose of taking over and handling his property interests in Peterboro, and was entirely controlled by him. The bank account of the Imperial was then overdrawn to the extent of about $120,000 and the overdraft bore interest at 6 per cent. Mr. Bradshaw did not know who was furnishing the security, Cox, Ames or the Toronto Saving and Loan. The intention seems to have been to reduce the loan somewhat within a short period and to give it the final form of purchase by the Imperial of the securing debentures. No minute or other written authorization of the transaction appears. It is stated, however, that the arrangement included a verbal guaranty by Mr. Cox that 2 per cent in addition to the 4 which the debentures bore would be paid, so as to indemnify the Imperial against the 6 per cent paid to the bank on the overdraft of $120,000, which was, of course, to be increased by the amount of the advances, and continued in fact to the end of the year. The reason given for there being no minute or other record upon the subject is that it was the intention to reduce the loan as soon as possible. There were some moneys paid by Mr. Ames between the date of the advances and the end of the year, and some $12,000 was transferred to the credit of these advances from another account of Mr. Ames, with the result that at the end of 1903 the balance of the advances was $50,000. A meeting of the executive committee was held on December 30. Authority was given at this meeting to purchase $50,000 of the 4 per cent debentures of the Toronto Savings and Loan Company, payable at fixed dates and all to date from May 21, 1903, with a verbal guarantee of Mr. Cox that an additional 2 per cent half yearly, would be paid. The 2 per cent was paid up to December 31, 1903, but during 1904 and 1905 the 4 per cent debenture interest only was paid, so that at December 31, 1905, Mr. Cox was liable to the company for $2,000 on his guarantee. On December 29, 1905, at a meeting of the executive committee at which were present Hon. S. C. Wood, F. R. Eccles, E. T. Malone, G. A. Morrow, S. J. Moore, F. G. Cox and Thomas Bradshaw, it was resolved:

> 'that the 2 per cent charged in addition to the 4 per cent on the Toronto Loan and Savings Company debentures, $50,000, amounting to $2,000, be written off, that

the 2 per cent be not charged since December 31, 1904, and that 4 per cent be the rate of interest claimed in the future.'

There is an inconsistency in the resolution, as $2,000 was the additional accumulated interest from December 31, 1903, not 1904. Pursuant to this resolution the additional $2,000 was written off. Mr. Cox did not deny his liability, but suggested that, as the company's bank overdraft was made good by the end of 1903, the company should be satisfied with 4 per cent, and his suggestion seems to have been readily acquiesced in by the committee. Nothing could more clearly indicate the reality of Mr. Cox's control. At a time when the bank account was overdrawn to the extent of $120,000 he procures advances to his son-in-law amounting to $71,100. He procures the pledging of the company's credit to borrow money with which to make the advances. The advances bear interest at 6 per cent, but so does the overdrawn bank account. By a resolution passed two years later, on a mere suggestion from Mr. Cox, his liability is wiped out, and the transaction becomes one that the management of this company would not for a moment have considered if offered in the ordinary course of business, a purchase of debentures to yield 4 per cent.

On June 1, 1903, while Mr. Ames was president of the company two days before his firm suspended payment, and after the credit of the company had already been pledged to assist him to the extent of $71,100 as above mentioned, he presided at a meeting of the executive committee at which the others present were Dr. F. R. Eccles, Hon. S. C. Wood, H. N. Baird and Thomas Bradshaw, and submitted a document signed by Mr. Cox in the words following :—

'I hereby guarantee the repayment to The Imperial Life Assurance Company of Canada, within two years from this date, of the sum of one hundred and seventy thousand seven hundred and forty-six dollars, the purchase price of the stocks as undernoted, with interest thereon at the rate of 6 per cent compounded half yearly, less dividends received by the said company in the meantime on said stocks, provided the said The Imperial Life Assurance Company of Canada will grant to me the option of repurchasing the said stocks at the said purchase price, with interest thereon as aforesaid. It is understood that any of the said stocks may be released during the period named upon my paying the said company the full market price thereof as at date of release (which market price I guarantee will not be less than the price below named), the said full market price to be credited by the Imperial Life Assurance Company of Canada on account of the total purchase price of all the said stocks.'

The following are stocks above referred to :—

No. Shares.	Company.	Market Price.	Purchase Price.
		$	$
234	British America Assurance Co.	90	10,530
736	Western Assurance Company	90	26,496
500	Ontario Bank	131	65,500
250	Dominion Coal Co., Ltd.	94	23,500
430	Twin City Rapid Transit Co.	104	44,720
	Total purchase price.		$170,746

GEO. G. COX.

After discussion it was marked 'approved' by the chairman and the minutes record the transaction as follows :—

'The purchase of the undermentioned shares was approved.

234	British America,	@ 85		$ 9,945 00
736	Western Assurance,	@ 85		25,024 00
500	Ontario Bank,	@ 121 76		60,881 86
250	Dominion Coal,	@ 72 2-3		18,165 34
430	Twin City,	@ 90		38,742 67
			Total	$ 152 758 87

At the next succeeding meeting this minute was confirmed.

The total amount mentioned in the minute, $152,758.87, was paid out by the company to different financial institutions with which these stocks had previously been carried by A. E. Ames & Company, and ledger entries were made among the records of transactions of purchase and not among the records of loans. Each stock was carried in a separate account, and, where the company owned other stocks of the same kind, all such holdings were mingled in the same account.

By the end of the year, all these stocks had been sold, under verbal instructions given from time to time by Mr. Cox at a total profit of $12,354.90. On June 26, 1903, after the earliest sales were made the entries relating to all these stocks were assembled in a single account, headed 'Special investment account,' still remaining, however, among the records of owned stocks. No explanation of this was forthcoming, but in any view of the transaction some such account would be necessary in order to ascertain the liability, if any, under Mr. Cox's guarantee. No further change was made in the bookkeeping, until the meeting of December 30, 1903, when a direction was made to amend the minute of June 1, 1903, so as to make it read,

> 'loan to Hon. G. A. Cox at 6 per cent of $152,768.87 on the security of the following stocks,'

instead of,

> 'the purchase of the undermentioned shares was approved.'

The minutes of that meeting also recorded that

> 'the loan to Hon. A. G. Cox of $152,768.87 was reported to have been paid with interest.'

This amendment seems to have been made on the suggestion of the auditors to authorize the transfer of the balance of this account, $12,354.90 to the Ames advance account. Whether the real transaction was a purchase or a loan depends upon what took place at the meeting of June 1 after the Cox guarantee was read. If it was arranged that the transaction should be a loan of a smaller amount than the proposed purchase money, the impropriety of the transaction is confined to the official relations of Mr. Ames and this typical instance of Mr. Cox's control. If the transaction was a purchase and sale the subsequent alteration of the minute and the release of the $12,354.90 was an added impropriety.

In 1903 the company joined in underwriting Electrical Development Company bonds at 90, with 100 per cent of bonus stock, its share of the underwriting being $50,000. The underwriting agreement required it to pool its holding for one year from January 1, 1903, with all the other holdings covered by the agreement. It might take up and pay for the bonds, in which case it was obliged to hold them for a year. It might permit them to remain in the pool, in which case they might be sold at prices fixed, not by the company, but by the managers of the pool. The stock was sold in 1904 at $18,875, which was partly applied in the reduction of the price of the bonds and partly carried to profit on investments. The bonds remained as an investment until April, 1906, when they were sold. Your Commissioners are of opinion that it was not a proper investment of insurance funds to place the sum of $45,000 beyond its control for a year in order to assist the public flotation of bonds.

The company bought $22,000 bonds of the Dominion Iron and Steel Company, an unauthorized investment, in April, 1902. At the end of the year, in order that the bonds might not appear in the company's annual return, they purported to sell them

to A. E. Ames & Company. On January 2, 1903, the company again took delivery of them and other bonds of the same company, making in all $50,000 bonds representing an investment of $44,484.25. One-half was sold in November and December, 1903, at prices varying from 57½ to 59, the amount realized being $14,419.25, and in December the balance were sold to the Dominion Securities Corporation at cost, or about 30 points over the market price, realizing $22,000. The loss on the whole was $8,065.

On March 16, 1903, 200 shares of Dominion Coal stock, another unauthorized security, were purchased, but no report of the purchase was made to the board until June 29. It was sold on July 6 at a loss of $2,619.67.

The Superintendent of Insurance on March 10, 1904, notified the secretary of the company that both these investments being unauthorized the directors were personally liable to make good the resultant losses. Subsequently, on May 23, 1904, he wrote to Sir Mackenzie Bowell, then president of the company, asking his personal attention to the matter. When Mr. Cox was informed that the directors proposed to make the losses good, he stepped in and made them good himself.

The company, on an application received through its agent at London, issued a policy of insurance for $25,000 on the life of A. E. Wallace, manager of the Atlas Loan Company at St. Thomas. On September 25, 1901, the executive committee approved of the purchase of five 4 per cent debentures of the Atlas Loan Company for $1,437.50 each, as payment of the first five premiums. It was also provided that the agents' renewal commission for the second, third, fourth and fifth years should be credited to interest, which would make the investment yield 6 per cent. Two debentures were received in payment of the first two premiums. Before the third became due the Atlas Loan Company became insolvent and was wound up. After crediting the dividend received from the liquidator, the loss on these debentures was $1,139.27. The policy lapsed.

THE NATIONAL LIFE ASSURANCE COMPANY OF CANADA.

The National Life Assurance Company of Canada was incorporated in 1897 by Act of Parliament, 60-61 Vic., cap. 78, and there has been no amending Act. Shareholders only vote at annual meetings, but the Act authorizes the company to extend the franchise to its policy-holders.

The authorized capital of the company is $1,000,000. The first issue was $500,000, and in November, 1905, the balance was issued and was all taken up before the end of that year.

All the capital was issued subject to a call of 20 per cent and a premium of $5 on each share. Each subscriber, therefore, paid $25 per share, $20 of which was credited to capital and the balance carried to surplus funds. The company has not yet paid any dividends.

Notwithstanding the premium contribution of $5 per share, a substantial impairment occurred. At the end of 1903 the company had a total surplus on policy-holders' account of $24,914.59. The paid up capital then amounted to $98,829.70, so that an impairment to the extent of $73,915.11 had taken place. The $5 per share premium, or $25,000 had also been expended. At the end of 1904, the total surplus on policy-holders' account was $13,258.75 and the capital paid up was $100,889.70, the impairment being $87,630.95.

A report on the company's business was made by Mr. W. T. Standen, consulting actuary, on February 7, 1905. He pointed out that the business, commencing in the fall of 1899, when competition for new business was keenest, and the cost of securing it highest, it must necessarily sink all or most of its capital before it could be hoped that the returns would permit the impairment to be reduced and the capital to be restored. He recommended an increase in premium rates to a point very near the standard rates used by the other Canadian companies. He also recommended the

adoption of some distinctive plan of term assurance, business on the usual plans being burdensome because of the heavy reserves.

Accordingly in 1905 the company adopted a 5-year option policy, giving the assured term insurance for 5 years, with the right, without medical examination, to renew on the life, endowment or limited payment plan.

The company had on its books at the beginning of the year $2,731,731 whole life insurance, $1,077,523 endowment insurance and $700,500 term insurance; at the end of the year it had $2,732,842 whole life insurance, $1,085.480 endowment insurance, and $1,307,115 term insurance. The only real increase during the year was, therefore, in respect of term insurance.

As already stated, the company in this year also issued $500,000 additional capital upon which a premium of $5 per share was paid. The premium thus received amounted to $24,500. The result of the year's operations was that at the end of it there was a total surplus on policy-holders' account of $163,508.75, the paid up capital stock then being $199,860.70, and the impairment being, therefore, $36,351.95.

While 5-year term insurance is most vigorously urged, insurance, both participating and non-participating, on other plans is also written. No profits have yet been divided among policy-holders and the first distribution will not occur for some three years. No preparation has yet been made for such distribution.

Directors have been allowed to deduct the full first year commission in respect of policies taken by them.

The company has confined itself almost exclusively to municipal debentures. Having regard to the small volume of its investments it is not believed to be profitable to establish a branch to manage mortgage investments.

For a time call loans to brokers were made, but this was discontinued, the management not feeling sufficiently in touch with the market values of securities. Two loans were made to brokers on authorized securities, in one case Canadian Pacific Railway stock, and in the other Twin City Rapid Transit Company stock. They were current for about two months and there was no loss.

The head office building was written up in value after the expenditure of considerable sums in alterations and improvements. The Superintendent of Insurance questioned the annual return in this regard, and the value of the building was determined for the purposes of the return by an independent valuation to which the Superintendent assented.

THE ROYAL VICTORIA LIFE INSURANCE COMPANY.

This company was incorporated in 1897 by Act of Parliament, 60-61 Vic., cap. 81. It has an authorized capital of $1,000,000, all of which was subscribed and a call of 20 per cent paid up thereon, by the end of 1898.

The company was promoted by Mr. David Burke, who has been its managing director since its incorporation. The organization expenses were small, by comparison with some of the younger companies. The special Act cost $485.65, and commissions on sales of stock amounted to $1,785.20, making the total organization expenses $2,270.85.

The capital stock is held by some 300 shareholders, no one person, nor any group of persons united by a common interest, having control. The directors and their friends hold about 1,300 out of a total of 10,000 shares. A form of proxy was sent to each shareholder for the first general meeting after he became a member, and proxies representing about 4,000 shares were thus obtained. These proxies are in a form which makes them available for all annual or special meetings. The large majority are in the names of the president and manager, and many others are held by individual directors. With the assistance of these proxies the directors control the votes. Policyholders have no voice.

The capital was not issued at a premium, and impairment resulted in the first year's operations. This impairment has increased year by year, the largest increase being in the year 1905. The impairment at the end of each year was as follows:—

1897, $7,919.42; 1898, $27,164.10; 1899, $37,651.09; 1900, $52,904.75; 1901, $74,595.06; 1902, $84,014.72; 1903, $108,056.02; 1904, $130,837.30; 1905, $155,267.91.

The insurance in force at the same dates was as follows:—

1897, $243,500; 1898, $920,577; 1899, $1,653,807; 1900, $2,051,660; 1901, $2,680,152; 1902, $3,358,331; 1903, $3,797,670.30; 1904, $4,204,072; 1905, $4,633,610.

In explanation of the large impairment having regard to the comparatively small amount of business in force, it was said that the company had been unfortunate in respect of death losses, that there had been an excessive mortality and that in some years policies much larger than the average had become claims. This was not, it was said, attributable to an improper medical selection but was accidental, and might have happened with any company having a small number of lives exposed. It was also said that the impairment itself made it difficult to obtain new business, and therefore greatly increased the expenses. Comparison with other companies which had received moneys from their shareholders by way of premium, or other contributions, which had no place in the capital indebtedness, was alleged to be unfair, this company not having resorted to any such device. In 1905 Mr. Blackadar made a report to the superintendent on the progress of this company's business which, later in the year, was communicated to the directors of the company. In it he referred to the abnormal death rate as one of the causes of the large impairment, but he also attraibuted it to the magnitude of the expenses of management by comparison to the new business each year. Your Commissioners agree in this conclusion that with so large a volume of expenditure there should have been a much larger volume of new business, to produce larger renewal premiums in subsequent years and so gradually overtake the impairment.

The company has given agents bonuses for business written in the last month or the last few months of the year. Possibly the largest bonuses were given in 1901. By a confidential circular to the agents dated September 25, 1901, they were offered cash bonuses for December business as follows :—$200 to the first, $100 each to the next three, $50 each to the next six and $25 each to the next eight. To qualify for the competition each agent was required to write $1,000 of insurance in September, or $2,000 in October or $3,000 in November, and all business written in September, October or November was placed to the credit of the December business. Any agent writing $3,000 of insurance between September 1 and December 31 and not securing a bonus was to be entitled to an extra commission on the first year's cash premiums of 5 per cent. This plan of bonusing agents to induce them to crowd business into the last few months of the year accounts, no doubt, for the large numbers of not taken and lapsed policies. Of the new business written in 1904, about 45 per cent either lapsed or was not taken at the end of 1905. The company seems to have been already paying substantial commissions to agents, and the December business cost approximately an additional 5½ per cent.

After its organization the company established a system of local boards, to obtain the assistance of influential persons in the different localities in which business was sought. They had no duties except to speak favourably of the company. They held a few meetings each year, for which they were paid $5 per meeting. They have not been called together for the last two or three years.

The company's powers of investment are entirely governed by section 50 of the Insurance Act. Call loans on stocks have been made to different brokers, including Macdougall Bros., shareholders in the company, and L. J. Forget & Co., in which firm Hon. L. J. Forget, a director and vice-president of the company, is a partner. These transactions are in contravention of section 38 of the Companies Clauses Act, prohibiting loans to shareholders, which is expressly made part of the Act of incorporation. Some of these loans were on unauthorized securities, the management making a dis-

tinction in this respect between loans and purchases, not because it was believed that the Act made any such distinction, but because it was thought that it should.

Loans were made to brokers on the following unauthorized stocks: In 1897, 300 C.P.R.; in 1899, Canadian Colored Cotton Mills and C.P.R.; in 1900, Canadian Colored Cotton Mills and Twin City Railway ; in 1903, Detroit United Railway, Twin City, Dominion Iron & Steel, Canadian Colored Cotton Mills; in 1905, Detroit United Railway; in 1906, Detroit United Railway.

The amount loaned on call has always been a large percentage of the company's assets, sometimes as much as one-half. Your Commissioners are not satisfied, from the evidence, that the highest rate of interest has always been obtained on these call loans, the management relying too much on the borrowing brokers for information as to current rates. In 1904 the Superintendent called attention to certain unauthorized securities which had been carried over from the previous year, and the loan was paid off. In February, 1906, attention was again called to unauthorized securities carried at the end of 1905. These were then replaced by securities authorized under the Act, and at the date of the inquiry it was stated that the company held no unauthorized securities.

THE CONTINENTAL LIFE INSURANCE COMPANY.

This company was incorporated by Ontario letters patent in 1899, with a capital stock of $1,000,000. Two years later it amalgamated with the Farmers & Traders Life and Accident Assurance Company, Limited, and an Act of the Ontario Legislature was obtained (1 Ed. VII., cap. 94), confirming the amalgamation, fixing the capital at $1,500,000, the subscribed capital at $765,400 and the paid-up capital at $63,891.64. Subsequently the subscribed capital was increased to $1,000,000, and at the end of 1905 the paid-up capital was $180,255.94.

The company obtained a Dominion license on December 31, 1901, at which time the impairment of capital was $57,581.49. In subsequent years the impairment was: 1902, $54,20[illegible]; 1903, $60,338.93; 1904, $68,872.68; 1905, $63,033.77; the last being the only year in which the company made a profit. In addition to capital the shareholders have paid premium on capital amounting to $26,712.43 since December 31, 1901.

Prior to the formation of this company, its manager, Mr. George B. Woods, was superintendent of agencies for the Merchants Life Association, carrying on business as a friendly society. It was not successful. Mr. Woods advised that it be wound up, and it accordingly went into liquidation. Its executive officers were: Hon. John Dryden, president; Emerson Coatsworth, first vice-president; R. S. Williams, second vice-president, and J. B. Reid, secretary; all of whom became directors of the Continental Life. The latter, on commencing business, offered insurance to the policyholders of the defunct Merchants Life Association, at special rates, because, as stated by Mr. Woods:—

> 'at that time there were quite a number of the men on the new board that were on the old board, and they wanted to protect the policy-holders as much as they possibly could.'

The method of giving a preference was to issue 14-year payment life policies at about the 15-payment life rate, and 18 or 19-payment life policies at about the 20-payment life rate. The total insurance thus written was not large—about $33,000—but the principle was entirely wrong as it preferred the policyholders of the defunct society who had no claim whatever upon the Continental Life.

The Farmers and Traders Life and Accident Assurance Company, Limited, was incorporated in 1896 by Ontario letters patent, and commenced business in 1897 as a life company, but never operated as an accident company. It had an authorized capi-

tal of $500,000, of which $346,900 was subscribed and $34,690 paid in thereon. An offer was made by the Continental Life on December 13, 1900, to pay the shareholders 15 per cent advance on the amount paid up on their shares, the premium serving to compensate the shareholders for loss of interest while their money had been invested, no dividends having been paid by the company. The purchase price was payable either in cash or paid up stock of the Continental Life. The offer was accepted by a resolution of the Board of the Farmers and Traders. Thereupon Messrs. Henry Cargill and Henry Scott, directors of the Continental Life, paid into the Atlas Loan Company, of which Mr. A. E. Wallace, a prominent director of the Farmers and Traders was manager, sufficient money to pay for all shares. They paid their own moneys but were guaranteed against loss by the Continental Life. The stock having been purchased, officers of the Continental Life were appointed officers of the Farmers and Traders and a formal agreement was entered into, dated January 2, 1901, for amalgamation under the name of The Continental Life Assurance Company. There was paid for the stock of the Farmers and Traders $36,660.37 in cash or stock, and after realizing the assets and paying the liabilities the cost of the insurance taken over was $24,606.88. The insurance in force at the date of the agreement was estimated to be $909,500, but by December 31, 1901, it had dwindled down to $731,400, It was stated that the estimated cost of the business to the Continental Life was $26.27 per $1,000 of insurance, but allowing for the shrinkage in the volume of insurance and the fact that the premiums on the Farmers and Traders policies were substantially less than the Continental Life was charging, the cost to the Continental greatly exceeded that amount. No investigation was made. Another company having offered 10 per cent on the paid up stock, the Continental offered an additional 5 per cent, no doubt expecting to pay in capital stock instead of in cash. Very few of the shareholders accepted stock, almost all insisting on cash.

Among the assets of the Farmers and Traders were $25,000 debentures of the Atlas Loan Company, which, on the amalgamation passed to the Continental Life.

The debentures matured in 1902 and were paid off, the Continental then desiring the money and insisting on payment. Mr. Wallace, the manager of the Atlas Company, who had meantime become a director of the Continental, desired them renewed, and it was agreed that the Continental should repurchase debentures to the same amount so soon as convenient. Accordingly, in August, September and October, 1902, $25,000 debentures, bearing 4½ per cent interest, were purchased.

In May, 1901, the Continental issued a policy on the life of W. H. Murch, president of the Atlas Loan, for $25,000, the Atlas Loan being the beneficiary. An agreement in writing was made between Murch, the Atlas Loan and the Continental, providing that so long as the ordinary capital stock and debentures of the Atlas Loan continued to be worth in the market their face value, the Continental should accept them at their face value in payment of the premiums, and should renew them for further periods of 5 years, until the termination of the policy, whereupon the company was to be at liberty to pay the policy in such debentures. Debentures for $1,300 each were received in payment of premiums for 1901, 1902 and 1903, making in all $3,900.

The Continental at Wallace's request deposited $5,000 with the Atlas Loan without security, at 4 per cent. The balance at the credit of this account on the failure of the Atlas Loan in June, 1903, was $5,116.75. Dividends were subsequently received from the liquidator, amounting to 37 per cent, leaving a loss of $3,190.26. This was carried as an asset up to December 31, 1905, when Mr. Blackadar insisted on its being written off and it was taken out of the return for the year.

On the failure of the Atlas Loan the Continental still held all the debentures mentioned, amounting with interest to $29,435.38. The Continental being a young company and its business not well established, serious injury was apprehended should its liability to loss by the Atlas failure become known. Advice is said to have been given that the debentures were a first lien on the Atlas assets, with priority over claims of

depositors and that therefore there would be no loss. In these circumstances it was decided to make a pretended sale of the debentures. In form they were sold to G. T. Somers, a director, at the amount of the debt. It was provided, however, that the company should pay Somers, his executors, administrators or assigns, annually, a commission of 2½ per cent of the annual premium income of the company until the loss, if any, should be made good. This liability was not disclosed in the returns.

The money with which this pretended sale was carried out was loaned by the Traders Bank upon the note of all the directors save one. Its proceeds were deposited in the bank to the company's credit in a special account, but were not to be drawn out except as other moneys were applied in reduction of the note. Somers executed a declaration of trust in respect of the debentures themselves in favour of the directors who signed the note, including himself. In February, 1904, the company paid about $2,500 on account of the commissions which formed Somers's security. This was paid to the bank on the note and an equivalent amount of the deposit released, a fresh note being taken for the balance. In March, 1904, further payments were made of about $1,300, the surrender value of the Murch policy, and about $9,000, the dividend paid by the liquidator of the Atlas Company, releasing equivalent amounts of the special deposit. The amount at credit of the special account on December 31, 1905, was about $16,000, and the promissory note then current was for a somewhat smaller amount. During 1905, after it became certain that there would be a very substantial loss in respect of the debentures, much discussion took place, as the result of which papers were prepared, the execution of which would have relieved the company from all liability and left the directors in the position of having assumed the loss. At the date of the inquiry some of the directors had executed the papers, others had not, but Mr. Somers declared his intention to assume personally any proportion of the liability which the remaining directors refused to assume. There was no definite arrangement as to the proportions in which the directors should bear the loss, the balance of the note was still unpaid, and the special deposit was still in the bank. Mr. Woods agreed or promised to assume $1,200 of the liability, but before he consented to release the company his contract of service, still current, was replaced by a contract for a further term of five years at an increased salary. Your Commissioners are not, upon the whole, satisfied that the company has yet definitely escaped the peril against which the directors profess to be trying to protect it.

Certain directors and officers in 1903, became the incorporators of the Ontario Securities Company, Limited, a company whose business was to buy and sell stocks, bonds and debentures. This company subscribed for all the unsubscribed stock of the Continental, and in 1905 actually paid $2,100 on account of the subscription. The management of the Continental seems to have treated that company with scant respect where securities were concerned which might be turned to the profit of the Securities Company. For example, while Mr. Woods was in the west, travelling on the business and at the expense of the Continental, he arranged for the purchase of certain debentures at favourable rates. In one case the debentures were afterwards manipulated to the entire exclusion of the Continental and to the advantage of the Securities Company. In another he sold as vice-president of the Securities Company to himself as manager of the Continental at a handsome profit. No moneys were paid out by the Securities Company, its function on these occasions appearing to be to intercept the profits earned by Continental moneys, and turn them into the pockets of the directors disguised as the Securities Company. In this fashion a dividend of 10 per cent on the Securities stock has been paid to the Continental directors besides bonuses of $1,000 to Somers, $1,200 to Woods, $500 to Fuller and $300 to Dryden.

On February 1, 1906, the Securities Company in its organization of the Sterling Bank had reached the point at which a deposit of $250,000 in cash must be made, to enable the subscribers to be called together, a permanent board elected, and banking business commenced. The amount theretofore paid in by subscribers to the stock was insufficient, and more was needed. A plan was devised. The Securities Company

was handed securities belonging to the Continental to pledge with the Bank of British North America, to secure the necessary advance. The Securities Company purported to purchase from the Continental at cost, debentures of the towns of Calgary, Chatham, Steelton and Fort Francis, amounting in all to about $59,074.38. These debentures were at once pledged with the Bank of British North America, and $54,000 raised on them, and paid over to the Continental as part of the purchase money. The Continental being then in funds, the Securities Company subscribed for $60,000 of Sterling Bank stock at 125, pledged the stock so subscribed with the Continental and borrowed on it $60,000, with which it completed the necessary deposit of $250,000. The loan to the Securities Company bore interest at 6 per cent, while the debentures earned about 4¼ per cent, and this was pointed to as indicating that the transaction was profitable to the Continental and therefore justifiable.

Your Commissioners, however, regard the whole transaction as one whereby the marketable securities of the Continental were used by the persons in control to carry to completion a transaction on which they had embarked for their private gain. The capital stock of the bank was not a security upon which money could be borrowed in the market. The directors, therefore, pledged it with the company which they controlled and used its marketable debentures to pledge with the Bank of British North America, the real lender of the money. The Securities Company thereafter sold the stock of the Sterling Bank thus acquired, as opportunity offered, and the proceeds were applied to reduce the loan obtained from the Continental. As that loan was repaid the Continental went through the form of repurchasing its own debentures which it had previously gone through the form of selling. That the pretended sale was a mere cloak under which directors in control of one company loaned its securities to themselves as directors of another is shown by the circumstances that it was agreed that if any of these securities should be sold pending the repayment of the loan, the profit thereon should belong to the Continental, the real owner.

THE CROWN LIFE INSURANCE COMPANY.

This company was incorporated in 1900 by Act of Parliament, 63-64 Vic., cap. 97, and received its license on September 10, 1901. It has an authorized capital of $1,000,000, and power to increase it to $2,000,000, after all the original capital has been subscribed and $500,000 of it paid. The company was promoted by Mr. George H. Roberts, who was the managing director until shortly before the appointment of Mr. Charles Hughes, the present manager, in February, 1906.

The prospectus professed to offer to the public 'an opportunity to make a permanent investment which would be absolutely safe, would rapidly appreciate in value and would soon be earning satisfactory dividends.'

The subscribed capital at the end of each year since organization was as follows :—1901, $320,000; 1902, $388,200; 1903, $400,000; 1904, $536,100, and 1905, $609,600.

It was all issued at a premium of 25 per cent and subject to a call on both capital and premium of 25 per cent, amounting to $31.25 on each share, $25 being credited to capital and $6.25 to surplus funds.

In each year the company's returns state that certain sums have been paid in cash on the subscribed capital and certain other sums on the capital premium, the former amounting in 1905 to $129,465.29, and the latter to $32,582.43, making a total contribution by shareholders of $162,047.72.

These alleged payments were not always made in cash. Promissory notes were taken, discounted within a few days before the end of the year, the proceeds treated as cash for the purposes of the return, the notes retired by the company at maturity, renewal notes taken, and at the end of the year discounted like the notes of the preceding year, and their proceeds again treated as cash. This device was adopted in the case of the medical director, Dr. H. T. Machell, although the Act of incorpora-

tion makes payment of all calls and other liabilities a condition of the directors' qualification. More recently stock subscriptions have been taken on what is described as the instalment plan, by which the capital and premium call is divided into 10 equal annual payments, bearing interest at 6 per cent.

The capital has been impaired each year by an increasing amount. In 1901 it was $1,797.56 ; in 1902, $34,896.70; in 1903, $68,486.13; in 1904, $93,233.93; in 1905, $109,706.97. The company had, therefore, at the end of 1905 expended out of capital $109,706.97, in addition to $32,582.43 premium, making together $142,289.40 out of a total contribution by shareholders of $162,047.72.

The company does not seem to have practised during these years the economy appropriate to that period of its history. The managing director, Mr. George H. Roberts, was paid a salary of $5,000 from the commencement. The president, Sir Charles Tupper, besides a salary of $2,000, was paid a commission of 1 per cent on certain capital and premium calls and received yearly, while he filled the office, a commission of 1 per cent of the gross first year premiums on policies written during the year. This charge on premium income seems to your Commissioners quite improper and unwarranted. Mr. Standen, consulting actuary, made two reports on the business of the company on August 15, 1904, one for publication and the other for the private information of the directors. In the latter he referred particularly to the remuneration of the president and directors, which then amounted to $13,600, an item from which he stated that most young companies are entirely exempt. Acting upon this report, the directors' fees were reduced from $10 to $5 per meeting, and it was determined to reduce the president's remuneration. He thereupon resigned.

By the company's Act of incorporation it is authorized to maintain separate accounts of the business transacted in 'Industrial,' 'General,' 'Abstainers' and 'Women's' sections, keeping the receipts and expenditures distinct, each section sharing its own profits and paying its own proper portion of expenses. There is also authority to establish a non-participating section. The company has not issued industrial policies nor special policies to abstainers, but it has issued policies to women, and has also issued non-participating policies. No attempt has been made, however, to keep separate accounts for the different sections. The time has not arrived for declaring profits under any of its policies, but if its present methods of bookkeeping are continued it cannot, when the time does arrive, do otherwise than set apart a purely arbitrary sum for division amongst the policyholders entitled to profits in any particular year. There can be no ascertainment upon principle.

The estimates issued by this company are considerably higher than those issued by older companies, notwithstanding its lower premiums. Premiums were fixed and estimates made to attract and secure business, and not on any competent calculation.

Directors and members of the head office staff are allowed commissions on policies taken by them. The latter, with the exception of the superintendent of agencies, receive renewal as well as first year commissions on such policies.

THE CENTRAL LIFE INSURANCE COMPANY OF CANADA.

By letters patent of the province of Ontario, dated February 23, 1901, Thomas Crawford, M.P.P., T. E. Bissell, Dr. James Dow, Major J. J. Craig, J. W. St. John, Dr. A. Groves and John M. Spence were incorporated to carry on the business of life insurance under the name of 'The Central Life Insurance Company,' with a capital stock of $1,000,000. On September 16, 1904, the name of the company was changed by order in council to 'The Central Life Insurance Company of Canada.'

The company was promoted by J. M. Spence. The original intention was to have the head office in Guelph or elsewhere in the county of Wellington, where the capital was expected to be subscribed, but after consideration it was established in Toronto. On April 1, 1906, owing to the increased expense of maintaining a head office in Toronto, it was removed to Guelph.

The prospectus of the company offered a limited amount of the capital to investors at a call of $12.50 per share, of which $10 would be credited to capital and $2.50 carried to surplus funds. This provision was deemed expedient in order to

> 'provide an immediate surplus and avoid any possible impairment of capital stock.'

The prospectus represented it to be very unlikely that another call would be made. A second call of 5 per cent was, however, made in 1905, to provide funds with which to make the necessary deposit to obtain a Dominion license.

On organization Mr. Thomas Crawford was appointed president, and Mr. Spence, manager, a position it was always intended he should occupy. His contract was for a term of five years. Mr. Crawford continued president until 1905, when he resigned, and the position of president and manager were combined in the person of Mr. Spence.

The incorporators became directors, and each subscribed for twenty shares. The office is held for two years, the last election having taken place at the annual meeting in January, 1905.

By the Ontario Insurance Act it is provided that before application for license there must be $300,000 capital subscribed and $30,000 paid into some chartered bank. The necessary amount was subscribed, but 10 per cent of it was not paid in cash. Certain shareholders gave promissory notes for the amounts due by them without any cash payment. To implement the cash payments, $15,000 was borrowed from the Ontario Bank upon the joint obligation of the provisional directors, and the money so procured enabled the deposit to be made. The promissory notes received from shareholders were not discounted or pledged as security for this loan.

The directors subscribed for twenty shares each at par, without assuming any obligation to pay the premium of $2.50 per share which was exacted of other subscribers. To show to the public a substantial subscription of the shares, the directors from time to time subscribed for substantial blocks of stock for which they paid nothing, but which remained in their names until applications for allotment were received from the public, when the required number of shares would be cancelled and allotted to the applicant.

In furtherance of this device, the president, Mr. Thomas Crawford, subscribed at different times for 240 shares; Dr. Groves, for 381; T. E. Bissell, for 100; Dr. J. Dow, for 200; J. J. Craig, for 100; J. W. St. John, for 200, and J. M Spence, for 849.

After deducting shares re-allotted to other subscribers, the holdings of these directors, including their original subscriptions for 20 shares each, stood as follows : Thomas Crawford, 25 shares; Dr. Groves, 40; T. E. Bissell, 20; Dr. Dow, 20; J. J. Craig, 20; J. W. St. John, 20, and J. M. Spence, 269.

The managing director has always had absolute control of the voting power. Proxies are sent out each year with a circular signed by him, asking that the proxy be filled up, signed and returned. The names of the directors were printed on the circular, but not inserted in the proxy. The result appears to have been that Mr. Spence, perhaps because he procured most of the subscriptions and was better known than the other directors, and perhaps partly because his signature appeared in the circular, received a large majority of the proxies.

The following table shows the principal proxy holdings at the last three annual meetings:—

	Jan., 1904.	Jan., 1905.	Jan., 1906.
Thomas Crawford	177	209	.....
T. E. Bissell	40	51	49
Dr. James Dow	46	155	102
Dr. Groves	43	108	109
James Spence	769	1,277	1 505
J. W. St. John	36	155	.....

Before the meeting of 1905 no vote was recorded, but all resolutions were passed unanimously and the president cast one ballot for all directors. Originally there were seven directors, but Major J. J. Craig resigned in 1903, apparently as the result of his criticism of the manager, and the vacancy was not filled.

At the meeting of January, 1905, there was a difference of opinion with regard to the number of directors, some favouring seven, some six, and others five. On a vote the views of the managing director prevailed, the board being reduced to five. The old directors were then re-elected, except Mr. St. John, with whom the manager appears to have been on unfriendly terms.

Mr. Spence appears to have then been in ill-health. In October following he was given three months leave of absence, the resolution providing that any expense incurred by reason of his illness should be deducted from his salary. Subsequently, in the same month, a meeting was held from which he was absent. A resolution was passed referring to his state of health and insisting upon his absenting himself from the office.

Mr. Spence's suspicions were aroused during his absence. He feared a scheme to oust him from office, and bestirred himself in the matter of proxies and fortified himself by insisting on the proxies being sent out by him as usual. It is not unfair to say that his inability to discharge the duties of the office made him the more determined to retain it. Mr. Crawford says that at the directors' meeting, prior to the annual meeting of 1906, he expressed his opinion that Mr. Spence's state of health did not warrant his continuing as the active manager, and that a stronger and more energetic man should be in charge. He offered to remain if this change were made, and to devote himself to the work of the company, although he did not intend to take the management himself. If the change were not made he would resign and retire on being paid for his stock.

On the other hand, Mr. Spence accused him of either wanting to take his position, or to sell out the company, which he was determined should not be done. Mr. Spence's voting power determined the result of this controversy. Mr. Crawford resigned, and Mr. Spence purchased his stock and that of his friends.

On December 31, 1904, Mr. Spence subscribed for 104 shares, being a balance which made the total subscription $500,000. He gave his promissory notes for $17.50 per share, being the two calls and the premium. The resolution accepting his subscription in no way limited his liability. On January 16, 1906, a new note was given and a resolution passed declaring the understanding to be that the stock would be sold if possible before the note matured. Later, on April 30, 1906, another resolution was passed cancelling the subscription and the note, alleging as a reason Mr. Spence's illness and consequent inability to effect a sale. Mrs. Spence then subscribed for the shares, giving her own note in payment, and a covering resolution was passed. Mr. Spence transferred to his wife 28 other shares, and admitted that the purpose of the whole transaction was to avoid liability on his part. He says the understanding among the directors always was that he should not be personally liable on the 104 shares. He seems to regard Mrs. Spence as holding them in trust for the company.

These transactions illustrate the inexpediency of contracts for long terms with officers, especially in the early history of a company, when a mistake may be disastrous. Here Mr. Spence seems to have realized that the company's progress was not satisfactory and that his illness unfitted him for his official duties, yet by virtue of his position under the contract and his voting control, he maintained himself in his office and freed himself of an inconvenient obligation, without regard to the interests of the company whose servant he was.

Prior to December 31, 1904, the company had written 1,232 policies, insuring $1,305,560. Of these 788, insuring $831,750, had terminated, leaving in force 444, insuring $473,750. The capital impairment was then $20,176.25, besides which the premium on capital, amounting to $12,512.50, had been spent. There were 579 policies insuring $601,250 in force at the end of 1905, a gain of 135 policies and $127,500 insurance. The impairment, however, had increased by $15,528.92.

On May 12, 1902, a loan of $4,000 was made to Thomas Crawford, the president, on his demand note, without other security. Mr. Crawford had then an overdrawn bank account. He says the suggestion came from Mr. Spence and that he acted upon it without proper consideration. Mr. Spence denies that the suggestion came from him and lays the blame upon Mr. Crawford. The cheque for the loan was signed by both of them in their official capacities. When the loan was repaid seven months later, a lump interest allowance of $100 was proposed by Mr. Crawford and accepted by Mr. Spence. This was less than 4½ per cent.

Mr. Crawford was also president of the Provincial Building and Loan Association. Its debentures had been offered for deposit with the Superintendent of Insurance for Ontario and had been refused by him. It was practically admitted by both Crawford and Spence that they were not a proper security. Later, Crawford proposed an investment of $5,000 in the same debentures. Spence consented and the investment was made. These debentures were sold in 1905.

THE SOVEREIGN LIFE ASSURANCE COMPANY OF CANADA.

This company was incorporated in 1902 by Dominion Act, 2 Ed. VII. cap. 102, with a capital of $1,000,000. The stock was at first issued at a premium of 25 per cent, with 20 per cent call, making $25 payable on each share. After about $50,000 had been subscribed on that basis the call was increased to 25 per cent, making $26.25 payable on each share, and after $500,000 of capital had been subscribed the premium was raised to 33⅓ per cent, and the last $258,000 was subscribed at a premium of 50 per cent. All the capital had been subscribed by December 31, 1905, and the shareholders had paid in $225,595.68 on capital account and $87,313.14 as premium. There was a slight impairment of capital at that date, the three years' operations having cost the company $90,000.

The prospectus on which the stock was sold was prepared by Mr. A. H. Hoover, who promoted the company and afterwards became its president and manager. It set out prominently the names of sixteen persons under the heading 'Board of Directors,' and stated they would be in close touch with the management and the administration of the company's affairs and would have a substantial interest in building up a strong and prosperous company, having subscribed for a large amount of stock. Six of the persons named did not become permanent directors of the company. Some of them never subscribed for any shares, and it is doubtful whether they ever gave Mr. Hoover permission to use their names. The prospectus also intimated that the directors were taking a deep interest in selecting a suitable manager, when the fact was that the manager was taking a deep interest in selecting a suitable board. Referring to the management of the company the prospectus said:—

> 'That a life insurance company based upon sound and proven calculations and managed with common honesty cannot fail, but that in order to obtain the most lasting and profitable results, a capable, shrewd, and far-seeing head is necessary, were the two facts recognized by the directors in seeking a man who would be equal to the demands which such an office would entail. The combined requisites of complete knowledge and experience, business judgment and acumen, unimpeachable integrity, and a capacity for strenuous and fruitful work, all necessary for such a position, were felt by the directors to be exceedingly difficult to obtain, but it is with exceeding gratification that they find themselves in a position to announce that they have succeeded in retaining a man who in an eminently noteworthy degree possesses all of these qualifications.'

This was entirely misleading in that it indicated that the directors had seriously concerned themselves in the selection of a manager, that they had exercised a real choice and had put the interests of the company before all other considerations, whereas

the company was promoted and created by Mr. Hoover that he might become the manager of it, the directors merely carrying out the arrangements he proposed.

Section 4 of the Act of incorporation provided that so soon as $250,000 of capital stock was subscribed and 10 per cent thereon paid into a bank the provisional directors should call a general meeting of the shareholders at which the shareholders present in person or by proxy, who had paid 'not less than 10 per cent on the amount of shares subscribed for by them' should elect a board. On December 9, 1902, a notice was given calling the general meeting for December 22. Subscriptions for $250,000 had not then been received, but on December 20, 1902, Mr. Hoover, in order to complete the subscription, personally subscribed for 408 shares, intending that they would be issued to persons from whom applications were subsequently received by agents employed to sell stock. After the notice had been given and before the meeting, the provisional directors purported to adopt by-laws, and a form of contract with Mr. Hoover was prepared by the company's solicitor. The notice calling the meeting did not state that the proposed contract would be submitted for approval.

The meeting was attended by shareholders in person representing 839 shares, of which Mr. Hoover held 533. He also held proxies authorizing him to vote on 1,019 other shares. The fact that he had subscribed for a large number of shares was referred to in the report of the provisional directors, submitted to the shareholders' meeting, but no mention was made of the fact that 408 were subscribed two days before the meeting under the circumstances above stated, nor of the fact that he had not then paid anything on any of the 533 shares standing in his name, and was not qualified to vote thereon at the meeting.

The meeting purported to ratify the by-laws submitted by the provisional board.

By-law 3, section 3, prescribed a form of proxy for shareholders, in which blanks were left for the names of two persons, the second to act in the absence of the first.

Section 4 of the same by-law prescribed a form of proxy for policyholders, substantially in the same form as the other proxy except that it contained the following clause:—

> 'This proxy shall be valid and effectual and shall continue in full force from the date hereof and until at least 30 days after a notice in writing expressly revoking or suspending same shall have been delivered to the manager of the company.'

Proxies were required to be filed with the manager at least ten days prior to the meeting, and proxies to agents and provisional managers or inspectors, not being directors, were forbidden.

By-law 4 required nominations to be made in writing and filed with the manager or secretary, thirty days before the election, none but qualified shareholders so nominated being eligible. It also authorizes the board, at any meeting, to elect any qualified shareholders to be a director until the next annual meeting, provided that the whole number, including the new directors, should not exceed twenty-five.

By-law 6 gave the manager authority, from time to time subject to the approval of the committee, to appoint officers, agents and servants, prescribe their duties, fix their remuneration and remove them.

By-law 8, section 5, provided that the manager, if a qualified shareholder, might be a director, that his salary should be $2,500 per annum and that a commission or a renewal interest of $1 for each $1,000 of insurance in force at the end of each year, should be paid to him, his executors, administrators or assigns, so long as any of the insurance remained in force.

Instead of obtaining shareholders' proxies in the prescribed form, Mr. Hoover incorporated into the form of share subscription a proxy clause appointing himself, for all meetings at which the shareholder should not be present. By this means the subscriber was committed to Mr. Hoover as his proxy from the moment he became a shareholder. Only one or two subscribers struck out or amended this clause, with the

result that Mr. Hoover has always represented practically all the absent shareholders. His representations of all the absent policyholders who gave proxies was just as complete. Attached to the form of notice of the annual meeting was a policyholder's proxy, by which the policyholder appointed Hoover his proxy, containing the by-law provision maintaining the proxy in force for thirty days after notice of revocation.

The shareholders' proxies, with his own shares, his right to vote which does not seem to have been questioned, gave him control of the organization meeting; and the practically perpetual proxies of shareholders and policyholders, coupled with the jurisdiction over agents, which the by-laws give him, the prohibition against their becoming proxies and the requirement that all proxies must be filed at the head office at least ten days prior to any meeting enable him to continue in control indefinitely.

At the organization meeting the proposed form of contract with Hoover was adopted. It amplified the provision contained in by-law 8, section 5. Should he cease to be manager his commission or renewal interest of $1 per $1,000 on insurance undertaken by the company during his management, including any insurance written in revival or substitution thereof, was to continue so long as any portion thereof remained in force. No definite term of employment was fixed, but the directors, after six years, were graciously permitted to give him a six months' notice that at the next general meeting of shareholders and policyholders a motion would be made to terminate the engagement. If during the six months Mr. Hoover's proxies were revoked in sufficient numbers, and if the motion were carried, his commission or renewal interest of $1 per $1,000 of insurance was not to be affected but was to continue so long as any of the insurance remained on foot. Neither dismissal, resignation nor death could put an end to this provision. In its enforcement Mr. Hoover has under the contract the right, although dismissed for cause and although he were the manager of a rival company, to inspect the policy registers and books of account at any time during the lifetime of the last survivor of all the persons who were policyholders when he ceased to be manager.

It is quite clear that Hoover's interests were the paramount consideration with him. There is no satisfactory proof that either the provisional directors or the shareholders had the provisions of this extraordinary contract brought to their attention or that they were ever alive to its consequence. It seems impossible to think that if they had understood what obligations were being imposed they would ever have assented to it. Section 4 of the Act of incorporation provides that

> 'the provisional directors shall call a general meeting.....at which meeting the shareholders present..... shall elect a board.'

The meeting being called for a specific purpose, before the company has been fully organized or is authorized to carry on business, it is questionable whether any business can be transacted at such meeting other than that mentioned in the Act. Assuming that other matters can be dealt with, it would seem that they should be expressly referred to in the notice calling the meeting. Shareholders might be justified, in the absence of such notice, in assuming that the organization meeting was a mere compliance with section 4. No reference was made to the manager's contract in the notice calling the meeting in question, and it appears to be very doubtful whether the action of the shareholders purporting to adopt the agreement is binding on the company.

A printed circular was issued to the shareholders which professed to contain a copy of the report of the provisional directors submitted at the organization meeting but Mr. Hoover's contract, which formed part of that report, was altogether omitted from the circular. Nor was it intended to disclose the contract to the Commission. Pursuant to the requisition of the Commission copies of the minutes were professed to be furnished but such copies omitted the minutes of the organization meeting where the contract was set out in full. And in furnishing copies of the company's by-laws

the portion of by-law 8, section 5, which sets out briefly the terms of the contract, was also omitted. As to the first omission, Mr. Hunter, the solicitor who advised it, attempts to account for it by an alleged misinterpretation of the requisition, as to the second he says he prepared the by-law in question and never intended it to contain the clause.

Your Commissioners cannot accept either explanation. The requisition clearly called for by-laws or other authority for the payment of salaries, commissions or other remuneration and was too clear to be misunderstood. Your Commissioners cannot but conclude that a deliberate attempt was made by the concerted action of the manager and solicitor of the company to prevent the contract coming to the knowledge of the Commission.

The view is strengthened by a mutilation in the copy furnished to the Commission of the minutes of another meeting held after the Dominion license was issued, and relating to the matter about to be discussed.

Section 5 of the Act of incorporation provided that the company should not commence business until $62,500 of capital was

> 'paid in cash into the funds of the company to be appropriated only for the purposes of the company under this Act; provided further that the amount so paid in by any shareholder shall not be less than 10 per cent upon the amount subscribed by such shareholder.'

In January, 1903, the company applied for a Dominion license, filing the affidavit of A. H. Hoover, the president, stating that the company had

> 'complied in all respects with the requirements of sections 4 and 5 of its Act of incorporation,'

and an affidavit of the company's bookkeeper, verifying a list of the shareholders and stating that

> 'the said list correctly shows the amount of capital stock subscribed for and the amount paid in thereon by each of the said shareholders respectively.'

The list attached set out the names of the subscribers to January 23, 1903, and in appropriate columns indicated that the amount paid by each subscriber was at least 25 per cent of the amount subscribed, the totals being $256,500 subscribed and $62,735 paid in. The shareholders had not, however, in all cases paid in cash to the company the amount represented as paid up on their shares. Many of them had given promissory notes, and others had not given either notes or cash. In order to provide the cash deficiency, a directors' note was discounted with the Imperial Bank on January 23, 1903, and the proceeds, $29,000 were placed to the credit of the company's account. The amount actually paid by shareholders at January 23, 1903, was less than $38,000.

The proceeds of the directors' note were treated as a loan to the company, and the accounts of the different shareholders who had not paid in cash prior to January 23, 1903, were treated exactly as if the directors' note and its proceeds had never existed. In fact many of the shares upon which by the fictitious application of these proceeds, according to the return, the full call of 25 per cent had been paid in cash, were subsequently forfeited for non-payment of that very call.

Mr. Hoover, the president of the company, was shown by the same verified list to hold three blocks of shares, 78, 408 and 25, upon which, in the appropriate column, he was indicated as having paid $1,500, $10,200 and $625 respectively, making in all $12,325. At that time he had only paid $2,000. On being asked to explain this discrepancy, he stated that he had given a note to the company for the amount, which was not produced. The evidence as to the existence of the note was unsatisfactory. It was said to have been kept in the cash box without any entry whatever appearing in any of the books, and, according to the evidence of Mr. Allen, the bookkeeper, it was in the cash box before the 408 shares were subscribed for at all, so that it could not have anything to do with the payment on them.

Moneys received on other stock subscriptions were applied in reduction of the directors' note, until wiped out. Thereupon the note was produced by the manager at a meeting of the directors, and was ordered to be destroyed. The minutes of this meeting were copied for the Commission, but the portion relating to the destruction of the note was omitted by the express direction of the company's solicitor, and would not have been discovered had production of the original minute book not been required.

On incorporation, the company issued a confidential circular, offering 100 special 'stock' policies. The amount to be insured was $5,000, increasing by $250 with each premium paid. In the event of death in the first year, $5,250 was to be payable; in the second year, $5,500, and so on, until 15 payments were made, when the policy would become paid up at $8,750. Later, a further circular was issued, offering another 100, but substantially increasing the premiums. He, Hoover, took out a policy on his own life under the first circular, on which the premium was $407.75. Under the second circular the premium would have been $441.79. Both circulars stated that the policies were not intended as a source of profit, but were offered as a favour to a few business and professional men in return for their influence in establishing the company's business.

The premiums under the first circular were altogether too low. They will probably be a source of loss to the company. The actuary thought that if there were absolutely no expense connected with them they might carry themselves. In any event there will be no profit, and they seem to have been offered to induce people to become shareholders in consideration of obtaining insurance at cost.

As another means of interesting prominent men in different parts of the Dominion, the company solicited certain persons to insure with the understanding that they would be made 'provincial' directors. Ten per cent of the first year's premiums upon business written within the particular province was to be set aside for ten years, and to be distributed among these 'provincial' directors. At the date of the inquiry there were 'provincial' boards in New Brunswick, Nova Scotia, Prince Edward Island and Manitoba, and several 'county' boards in Ontario. It is needless to say that the gentlemen composing them had nothing to do with the direction of the company. It was contended that as the amount paid these directors was deducted from the commissions payable to agents there was no loss to the company. This argument merely turns the transaction into a rebate forced upon the agent.

THE UNION LIFE ASSURANCE CAMPANY.

The business of this company is almost entirely of the industrial class. It has an interesting but peculiar origin and history. The North American Insurance Company in the year 1900 had a branch known as the 'Provident Branch,' the business of which was the writing of industrial insurance upon the basis of monthly premiums. Mr. H. Pellman Evans was the manager of the branch. The volume of provident or industrial insurance on foot was about $800,000, and the monthly premium income, which is technically known as the monthly debit, was between $600 and $700. Mr. Evans was anxious that the operations of the branch should be extended outside Toronto, to which city they were then confined. The company, on the other hand, was not minded to make such extension. With the object of forwarding his views upon the subject, Mr. Evans associated with him in the promotion of a company four other gentlemen, Mr. Harry Symons, Mr. Buchanan, Mr. Plummer and Mr. Crispo, Mr. Evans and Mr. Symons being the prominent and active promoters. The company they formed was the National Agency Company. A charter was obtained in January, 1901, under the Ontario Companies Act. The sole object of incorporation stated in the Letters Patent, was 'to act as a managing agent for any insurance company that stands registered as such under the Ontario Insurnce Act.'

The capitalization authorized was $100,000, and the charter required the company, under pain of cancellation of the Letters Patent, to notify the Provincial Secretary of the name of any company whose management it undertook.

In the course of working out his plans, Mr. Evans had arranged in the preceding November with the North American Life, for a transfer to the proposed company, which was then intended to be capitalized at $25,000, of the business of the provident branch as a going concern, and on November 7 an agreement was prepared and executed accordingly. It was an onerous agreement for the National Agency Company. There was to be a payment in cash of seven times the monthly debit or premium income. Inasmuch as the North American Life was still to issue the policies, the Agency Company having no corporate powers in that behalf, the former required not only an indemnity but a substantial money consideration. It was to be paid $2 for every $1,000 of new insurance written, and it was to retain in its own hands the security for its indemnity, in the shape of the reserve upon all the insurance liabilities. These reserves were to be released as the policies lapsed, or matured and were taken care of by the Agency Company, but meantime all profits arising out of their investment belonged to the North American Life. The excess of premium income over expenses and reserves was to be first devoted to the payment of a 10 per cent dividend to the shareholders of the Agency Company, who, it was intended, should be the trustful and confiding public, and, inasmuch as a free subscription of stock was of the very essence of the plan, it was imperative that the stock should from the beginning pay dividends. After paying these dividends, 20 per cent of what was left of the profits was to be paid to the North American Life for five years, 25 per cent in the sixth year, 30 in the seventh year, 35 in the eighth year and 40 in the ninth year, at which the percentage was to become stationary, and it was apparently to continue to be payable in perpetuity.

The acceptance and carrying out of this agreement would appear to have been *ultra vires* of the National Agency Company. It involved the taking over and ownership of the provident branch as a going concern, the appointment and payment of all agents, canvassing all insurance, actually writing all policies, receiving all premiums and indeed everything except the mere signing of the policies issued.

On January 2, 1901, Mr. Evans, trustee for the proposed company as he was, transferred the agreement to the National Trust Company. The only reason for doing so that is suggested upon the face of the transfer itself is the provision by which the Trust Company, when handing over the Trust property to the new company, was to hand it over subject not only to an undertaking by the new company to perform all the terms of the original agreement, but also to a charge of $4,000 in Evans' own favour. This was justified as promotion expenses, including commissions on the sale of stock, but its plain tendency was to prevent the company from dealing independently with its trustees.

Mere incorporation did not enable the agreement to be carried out, and time was extended until the following August. In the interval, subscriptions to the stock were being solicited. On August 7, the transaction was consummated in an agreement between the North American Life and the Agency Company, the terms of which are substantially the same as those of the agreement of the preceding November. Mr. Evans was president of the new company and Mr. Symons secretary. The other promoters do not seem to have had much, or indeed anything to do with organization or operation.

It was not long before it was found desirable to get rid of this onerous contract and substitute some more satisfactory working scheme. The method devised was ingenious. Industrial insurance is an investment which is long in ripening. The actuary who advises the Union Life and who is a member of its board, is also the actuary of the Colonial Life Insurance Company, a large industrial insurance company doing business in the United States. Before his connection with that company he was connected with the London Prudential, a large British industrial company. He has also

been connected with the Metropolitan of New York, also a large industrial company, and is well qualified to speak upon the subject. His statement is that even in a properly conducted and successful company no returns to shareholders can be expected for many years. Of the Colonial he says that its shareholders are wealthy men and were made quite aware of the conditions attending the investment before they subscribed for the stock, and were willing to have the investment lie fallow for a long term of years in the hope of having it yield richly in the end. When Mr. Evans and Mr. Symons incorporated the Agency Company, therefore, this was the nature of the investment which was to be offered to the public.

The persons whom they sought to interest were not persons who wished to lock up their moneys in fallow securities, and were not informed that their contributions were to remain invested for many years without any return. On the contrary, the very problem was to pay regular and substantial dividends to the investors upon the one hand, while upon the other, the capital funds must not show impairment.

The incorporation of the Union Life offered an excellent opportunity of experimenting with this fallacy. The whole capital stock was to be subscribed by the Agency Company, save a few qualifying directors' shares, for which indeed the Agency Company was also to pay. It was to be subscribed at a large premium, to assist in avoiding the appearance of impairment. The shareholders in the Agency Company had subscribed for the shares of that company at a premium also. The scheme involved increasing the capital of the Agency Company, thus raising large sums from time to time, to be devoted to the maintenance and development of the business of the insurance company, until that distant period at which returns might be expected.

After negotiations with the North American Life for a transfer of the obligations of the Agency Company to the proposed new insurance company, the promoters obtained an Act of Parliament, 2 Ed. VII., cap. 109, on May 5, 1902, incorporating them under the name of 'The Union Life Assurance Company,' with a capital of $1,000,000. The Act required $250,000 capital to be subscribed and 10 per cent paid in cash before organization, and authority was conferred, after subscription and payment of the whole capital, to increase it to $2,000,000.

All the directors of the Union Life were directors of the Agency Company. Mr. Symons became the president and Mr. Evans its secretary. There were seven directors in all, and they were furnished the statutory qualification, 25 shares each, out of the funds of the Agency Company.

In the meantime the Agency Company, which in November, 1900, had proposed to do its modest business of insurance agent on the modest capital of $25,000, and which in its charter had obtained the authorization of $100,000, had on August 28, 1901, obtained the necessary authority to increase its stock to $500,000. It may be added that in August, 1905, a by-law was passed authorizing its further increase to $750,000, but that increase has not taken place.

On July 16, 1902, the Agency Company transferred the provident business to the newly incorporated Union Life. The conveyance recited that the Agency Company had acquired that business, had been managing and extending it and had made considerable expenditure in connection therewith,

'all of which form a valuable asset in the hands of the Agency Company.'

It then proceeded to fix the value of this asset at $34,732.05, being fifteen times the monthly premium income, or monthly debit, of $2,315.47. This is an arbitrary method of measuring values, and is peculiar to industrial insurance. It may be that in the case of an old, well grown and well established business, values may fairly enough be so measured. When the Agency Company purchased the same asset from the North American Life, the monthly debit was multiplied by seven instead of by fifteen. This shows how purely arbitrary such a method necessarily is.

The agreement also transferred the reserve then held by the North American Life, amounting to $8,078.63.

The stock subscription was dealt with by the same agreement. The Agency Company was to subscribe for the whole of the stock of the Union Life and to pay 10 per cent or $100,000 upon it. There was also to be paid a premium of 5 per cent or $50,000. The business and reserve handed over were to be taken in part payment at the figures mentioned above.

The Union Life was given power to call a further 5 per cent premium, but it was provided that the 5 per cent limitation upon this power

> 'shall not preclude the Agency Company from contributing any further sums to the Union Company at any time on premium account if it shall see fit so to do.'

The draftsman, no doubt, foresaw that more than a total premium of 10 per cent might be swallowed up before the business could begin to carry itself without showing impairment of capital.

The agreement which has since ostensibly regulated the relations between the Union Life and the Agency Company was made on the same day. The original was produced on the inquiry, and Mr. Evans was examined upon it. There were two important corrections subsequently made by endorsement upon it, which are, it is declared, to be treated as having always been part of it. As they are called 'corrections,' there is no reason to doubt that they always were in reality part of the agreement, but were omitted from the original writing by error.

All moneys expended by the Union Life (outside of head office expenditure) are, by the agreement, to be deemed to be paid out for the Agency Company. In practice the Union Life employs and pays the agents, and the Agency Company takes no part in operating the business.

The Agency Company is, under the agreement, to receive commissions as though it really were a working agent. This is the source out of which ready money is found to pay its shareholders their dividends, though the annual and other statements of that company treat it as in a condition to pay dividends by reference to a number of assets, more or less real. This provision for dividends is made sacred by another paragraph, which prevents the Union Life from looking to the Agency Company, under the other clause referred to, to be reimbursed any excess of its agency expenditure beyond 80 per cent of the commissions, so that 20 per cent must always be paid to the Agency Company, regardless of the actual expenditure. In practice the expenditure has always been at least 150 per cent of the commissions, but for the difference between that and 80 per cent the Union Life has no recourse against the Agency Company. The commissions themselves are liberal, in view of the fact that no work is performed for them —50 per cent of the whole premium income of the weekly and monthly business of the provident branch, 100 per cent of the first year premiums, and 30 per cent of the renewal premiums in provident branch business other than weekly or monthly, and 90 per cent of the first year premiums and 10 per cent of the renewal premiums in general branch business.

Having thus secured a continuous, immediate surplus of cash with which to keep themselves in countenance with the shareholders of the Agency Company, the gentlemen who manage both companies and were on both sides of the agreement, next turned their attention to the other side of the question, the danger of impairing the capital of the Union Life. This they arranged by providing that no commissions should be paid to the Agency Company which should result in reducing policyholders' surplus in the Union Life below $100,000, the amount of capital paid in by the Agency Company, though by no means all the money with which the shareholders of that company have continued to maintain this industrial asset.

With these nicely balanced clauses, with a substantially identical directorate, with the management of both really vested in the two gentlemen, Mr. Evans and Mr. Symons, the Union Life Company and the National Agency Company embarked upon their joint adventure.

The adventure was joint and the interests involved were the same. The shareholders of the Agency Company were the persons really concerned in the welfare of both companies, and as they have paid for Union Life stock $100,000, and in premiums thereon the sum of $425,000, it is proper to trace the joint history from their standpoint. How has the business transferred to the Union Life on July 16, 1902, and then valued at $34,732.05, for the business and goodwill and $8,078.63, the reserve, a total of $42,810.68, become transmuted into an asset for which these shareholders have been induced to make these payments? What considerations have moved them? What inducements have been held out?

The necessity of paying them dividends has never been lost sight of by those in management, especially in view of the fact that nearly all the stock has been allotted at a premium, some at 125 and some at 150. The members of the executive committee, Mr. Evans, Mr. Symons and Dr. Millichamp, it is true, on October 22, 1902, allotted shares to themselves at par by the same minute by which a large number of applicants were awarded allotment at 125, justifying themselves under a resolution of the shareholders of August 22, 1901, which required them to offer the new issue to old subscribers on the terms of their original subscription, and to offer them to the public at such premium as the board might determine if not taken within a month. But with these exceptions substantially the whole stock was subscribed at a premium.

When the time approached at which the shareholders might be expected to look for a dividend, it may be supposed that the management fully realized the occasion to be critical. This was in the early part of 1902, when the business was being carried on under the agreement with the North American Life. A statement was prepared, and the auditor's 'opinion' asked with regard to the propriety of a dividend. The assets, according to that statement, were $67,957.06, the liabilities, $61,812, and the surplus, therefore, $6,145.06. But among the assets were the following sums: Organization expenses, $4,000; contingent premiums, $19,500, and if they were improperly treated as assets, the surplus of $6,145.06 is turned into a deficit of $17,355.

The auditor in his opinion takes into consideration no dry questions of present assets and liabilities.

> 'The prospects of business for the next two months, taking the basis of the present business,'

are, in his view, the justification for the present dividend.

The question of including contingent premiums for dividend purposes was subsequently raised in the board, and a promissory note of the directors, by way of 'contribution to surplus account,' for the amount divided was prepared and signed. A fortnight later, at a special general meeting at which only one shareholder who was not a director was present, the note was cancelled and the directors released.

Inasmuch as contingent premiums are premiums not even earned, the impropriety of paying dividends out of them is manifest.

In all statements subsequently prepared, down to the acquisition of the shares of the Union Life, the contingent premium item occurs, and in each case of such an amount that, if it is deducted, the liabilities exceed the assets.

The method of preparing such statements was changed after the capital stock of the Union Life became the principal asset. It is scarcely necessary to examine minutely the different statements themselves. There are some differences in principle and in detail and in many respects they are open to criticism but the controlling factor which, in the opinion of your Commissioners, vitiates them all, is the value placed by them upon the investment in Union Life stock. At first it was valued at a sum equal to all the moneys, by way of capital and premium, that had been put in. But in 1905 even this method failed to show an excess of assets over liabilities, as will at once become apparent if $520,275 is substituted for $615,949.10 in that year's statement, the former being the sum of all capital and premium contributed, and the latter a new valuation intended to maintain the assets at such a figure as would ostensibly justify a dividend.

The method adopted was to take the apparent surplus shown by the returns of the Union Life, $110,000, and add to it a valuation placed upon the insurance business of that company. For the general branch, one whole year's premium income was thus added, $34,309.10, and for the provident branch the weekly debit, $3,628, was multiplied by 130, making $471,640. These three amounts make $615,949.10, which was the sum put forward as the value of the Union Life shares in 1905.

The Union Life pays no dividends, because it makes none, and in the ordinary course cannot for many years to come, even if it prospers. In truth the dividends received have been returned out of contributions.

The ability to extract moneys from the shareholders of the Agency Company is probably at an end and, no doubt realizing the approach of that condition, the management has issued debentures to the amount of about $160,000. Some of these have been sold, but their marketability was feeble, and they have been largely exchanged for other weak securities, which find their way into the government returns of the Union Life as investments of that company. Practically all the Union Life investments have been purchased from the Agency Company.

The company values its policies on the $O^{(m)}$ table with 3 per cent interest. It sets apart no reserve during the year in which policies are written, a practice followed by some other industrial companies. It is said that when applying for ordinary insurance the applicant makes a selection against the company, taking out the insurance when he has nearly reached his next birthday, but that there is no such selection by applicants for industrial insurance. As new policies in any year may be said to be issued on the average at the middle of the year, and as those insured under industrial policies are then a half year younger than the age charged for, it is said to follow that the insured reaches only on December 31, the age for his premium, and that no reserve is required earlier. The evidence of Mr. Harvey was strongly in favour of this method of valuation, but different views were expressed by other witnesses. Your Commissioners are of opinion that there is no sufficient distinction between industrial and ordinary insurance in this respect to warrant a different method of valuation.

The examination of the Union Life was concluded on May 11, 1906. Subsequently, the Commission directed that Mr. Symons be recalled. A transaction had occurred in June to which the Union Life, National Agency and Toronto Life Insurance Company were parties, that was made the subject of discussion in the public press. The Toronto Life was an Ontario corporation promoted by the York County Loan and Savings Company with a subscribed capital of 3,414 shares. The shareholders had contributed $73,216.58 capital and $41,988.80 premium, making together $115,205.44. In May, 1905, the National Trust Company, liquidator of the York County Loan and Savings Company then in process of being wound up, offered for sale 1,611 shares of the Toronto Life stock. To facilitate a sale the liquidator arranged with other shareholders for the right to include 276 other shares, making in all 1,887 shares, a clear majority. After negotiations through F. McPhillips, proprietor of an insurance journal, the whole were sold to the National Agency Company for $56,330.95, being 80 per cent of cash contributions. The agreement was made on June 2, 1906. One of its terms was that the liquidator should procure the resignations of four out of the five directors of the Toronto Life and the election of the purchaser's nominees in their places, and on the same day this was done, Symons, Millichamp, Evans and McGowan, directors of the Agency Company, filling the four vacancies. The new board on the same day made an agreement with the Union Life for the reinsurance of all the Toronto Life business. The Toronto Life agreed to cease business in Canada, and transferred to the Union Life its assets with some exceptions, but including all government deposits and reserves and the securities representing them. The Toronto Life policies were to be valued at 3 per cent, the market value of the assets ascertained, and the excess of the assets over the reserves so computed re-assigned to the Toronto Life in assets selected by the Union Life. Upon execution of the agreement the Union Life became entitled to and took full possession and control of the assets.

The insurance in force at the end of 1905 was $3,492,065, and the premium income for that year was $117,028.22. In the first four months of 1906, $24,692 new insurance was written, and $872,195 lapsed, leaving the insurance in force at May 1, 1906, $2,644, 562.

For this business the Union Life paid nothing. The Agency Company purchased control, and used its power to give away the company's assets. The insurance in force should have brought a fair return to the shareholders.

No computation of reserve was made, it was not intended to make any until December 31, 1906. In September, 1906, however, the shareholders of the Toronto Life were deprived of all interest in the valuation, their directors having given away the remaining assets to the Agency Company. They first provided for valuing the policies at 3½ instead of 3 per cent, and, having thus increased the surplus which was to be reassigned to the Toronto Life, gave it away to the Agency Company upon a professed consideration which was a mere pretence. This left the minority shareholders of the Toronto Life without any assets whatever. Under the agreement they were entitled to sell their stock to the Agency Company at 60 cents on the dollar in cash, or 80 cents on the dollar in debentures of the Agency Company, but if they declined to do so, they were without redress.

THE MONARCH LIFE ASSURANCE COMPANY.

This company was incorporated in 1904, by Act of Parliament, 4 Ed. VII., cap. 96. Its authorized capital is $2,000,000 which there is power to increase to $3,000,000 when $2,000,000 has been subscribed and $1,000,000 paid up. The incorporators were D. A. Gordon, Thomas H. Graham, George Stevenson, E. D. Brown, D. W. Livingstone, T. Marshall Ostrom and William Scott, Mr. Ostrom was the promoter. He commenced the work of organization in March, 1904, the Act of incorporation was assented to in July following and a license was obtained on July 19, 1906. The affairs of this company were before the Commission on September 4, 1906. At that time it had written very little insurance, and the inquiry was limited to its organization and establishment.

Stock was issued at a premium of $25 per share. The whole premium and 10 per cent of the capital was called and made payable as follows; $15 cash on application, $15 in two months, and $5 in one year.

The form of application for shares provided that pending incorporation the first and second payments should be made to the Union Trust Company, Limited, which was authorized by the application to pay under the direction of a committee representing the subscribers and out of the premium on each share, such part of $7 as might be necessary for promotion and organization expenses. The committee consisted of T. M. Ostrom, T. H. Graham and A. W. Holmsted. Its first meeting was held on March 16, 1904, and thereafter it held weekly meetings of which formal minutes were kept. Mr. Holmsted resigned on May 11, 1904, in order that Mr. James Cochrane might be appointed, but he continued to act as secretary until July 13, 1904.

On the Act passing the subscribers' committee ceased to exist, and thereafter the provisional board held weekly meetings. On July 27, 1904, it purported to pass by-laws and appoint officers, including president, vice-presidents, managing director, general solicitor and counsel, medical director and an executive committee.

A meeting of the subscribers to the capital was held on December 7, 1904. At that date $246,700 had been subscribed and $14,155 paid, besides $24,721.50 on premium, making a total of $37,476.50. This, however, included the following unpaid cheques, the stock certificates being withheld until the cheques should be cashed: T. H. Graham, $3,500; Mrs. M. F. Fife, secretary, $3,500; T. M. Ostrom, $3,500; William Scott, $700; Hon. James Cochrane, $4,500; Dr. Forbes Godfrey, $750; D. W. Livingstone, $3,500; S. H. Davis, $3,500; D. A. Gordon, $250; a total of $23,700.

The Act required $250,000 stock to be subscribed and 10 per cent of it to be paid up before holding the meeting, and neither requirement had been complied with. It was also said that proper notice was not given. The meeting was, therefore, incompetent. Its proceedings were ultimately disregarded, and another was held on March 21, 1906. Meantime, the management had been in the hands of the board of directors elected at the illegal December meeting, and of an executive committee appointed by it.

The minutes of the second meeting indicate that 5,975 shares were then subscribed and $40,810 paid, besides $73,538 on premium. The meeting appointed directors, adopted the by-laws passed by the provisional directors on July 27, 1904, appointed auditors and referred to the board a proposed agreement with Ostrom regarding copyrights.

The Act forbade the commencement of business until $62,500 of the capital should be paid in cash into the funds of the company, the amount paid in by any shareholder not being less than 10 per cent of his subscription. On the application for license, a sworn statement was submitted to the Superintendent, showing 8,132 shares in all subscribed. Of these 6,284 shares were alleged to have been paid up to the extent of 10 per cent or more, $63,870 having been paid in on them. The other 1,848 shares had produced $3,310 only. Of these 6,384 shares, 1,600 were subscribed when the license was applied for by the president, Mr. D. A. Gordon, who borrowed the money to pay the 10 per cent upon them. They were necessary to make up the paid-up capital which the Act required. The executive committee on May 19, 1906, while the application for license was pending, passed a resolution providing that Gordon be allowed a rebate on these shares of $8 per share which, the resolution stated, was less than the cost of obtaining past subscriptions had been. The resolution went on to provide that no further allotment of stock should be made without the consent of the president. This arrangement formed part of the transaction by which Gordon purported to subscribe for these shares and to pay 10 per cent upon them. Prohibiting further sales without his consent afforded him the opportunity of disposing of them. The persons concerned showed no respect for the Act of Parliament, the provisions of which were deliberately violated. As pointed out later, there is some doubt whether the executive committee which passed this resolution was validly appointed.

Some of the shareholders gave their notes in payment of the capital call, and in some cases the notes were not strictly enforced. Ostrom's own note for $3,500 has not been paid and no interest has been collected. Interest was charged in his account, but was afterwards wiped out by a cross entry.

The Act provides that the head office shall be in Toronto or in such other place in Canada as the directors may from time to time determine. In the interval between the two organization meetings many stock subscriptions were obtained in Winnipeg, apparently on the understanding that the head office would be located there. At a board meeting held immediately after the shareholders' meeting of March 21, it was decided that the head office should be changed to Winnipeg. All the directors present except Mr. R. C. Hutchinson, of Montreal, voted for the change. Ostrom himself voted for it, though he was opposed to the removal. He suggests by way of explanation that the meeting was 'rushed.' However that may be, his real attitude was hostile, and he seems to have determined to defeat his board of directors and to prevent the transfer if possible. He was assisted in this by the president and other Toronto and Montreal directors. He does not, however, seem to have been at all frank with them, and later, with fuller knowledge, they declined to support some of his plans.

The removal not taking place promptly, as the western directors had expected, they had recourse to a by-law giving any four directors power to call a special meeting, and summoned the board to meet at Winnipeg on August 10, 1906. They also by notice to the bank prevented funds from being withdrawn. Ostrom at once laid his plans to circumvent them. He induced the president to call a meeting at Winnipeg for the 9th. The western directors do not seem to have been notified, or if they were,

at so late a date as to prevent their attendance. The meeting was accordingly attended by Gordon, Ostrom, Livingstone, St. Denis, Brunet, Graham and Desauliers, directors from Ontario and Quebec. They elected A. Denholme, director, in place of J. F. Boles, who had died, and passed a by-law changing the head office back to Toronto. They then adjourned to the following day. On the 10th both parties were in attendance, and a very heated discussion took place. The western directors made serious charges of falsification of the records. The official list of elected directors showed fourteen eastern to eleven western directors. This was claimed to be a fraudulent and false statement of the result of the election. The minutes recorded an adjournment to Toronto, and it was claimed that the adjournment had been in fact made. The position that every act of the board after its first meeting on the 21st March, including the appointment of an executive committee, was illegal, was firmly taken. Counter allegations were made. It was said that some of the western directors were not qualified, all calls on their stock not being paid. While it seems true that some of the directors in both factions were not properly qualified, they had, no doubt, been elected on the understanding that they would qualify. The meeting was at last adjourned until the following day without transacting any business except agreeing upon a committee to bring in a report. On the 11th, after the committee had reported, it was unanimously resolved to remove to Winnipeg in accordance with the resolution of March 21, 1906. The acts of the executive committee from that date forward, except the resolution for the allotment of the 1,400 shares to Ostrom, were confirmed. Brunet, Livingstone and Graham resigned from the executive committee, and a new committee composed of Bawlf, J. T. Gordon, Rogers (chairman) and Taylor, all Winnipeg directors, with the president *ex-officio,* was appointed.

At an early stage Mr. Ostrom manifested his intention to exploit the company for his personal benefit. An agreement, prepared by Ross & Holmsted, who were instructed by him, was presented to the shareholders' committee at its first meeting, March 16, 1904. It provided for an assignment by him to Graham, Holmsted and William Scott, trustees for the proposed company, of certain copyrighted forms of insurance policies. The price was to be $49,000 fully paid stock, $1,000 cash, and employment as first vice-president and director of agencies and of the actuarial department for five years at a salary of $3,000. Inasmuch as the copyright could confer no exclusive right to the plans of insurance covered by the copyrighted forms, this was practically paying $50,000 to Ostrom for drawing the forms. Mr. George Stevenson was also a party to the instrument. The securing of the valuable copyrights moved him to agree with Ostrom to

> 'facilitate him in the promotion of the insurance company by devoting a portion of his time thereto.'

When it is remembered that the shareholders' committee consisted of Ostrom, Holmsted and Graham, it is not surprising that the proposed agreement was enthusiastically received.

After the illegal meeting of shareholders of December 7, 1904, and while the management elected by it was in control, the bargain was carried out. There were allotted to Ostrom 1,400 shares of stock on which he was credited with the 10 per cent call, $14,000, and a premium of $25 per share, $35,000. Subsequently, when a person claiming title under a mesne assignment of the copyrights by Ostrom to Stevenson brought an action to have his rights declared, Ostrom, thinking it good policy to belittle the copyrights, moved and procured to be passed by his executive committee a resolution stating that the copyrights had lapsed, that they had not been approved by the Superintendent, and that the agreement to purchase them had therefore become void. The shares were cancelled accordingly.

But that was not the last of the matter. Ostrom again brought it up on the eve of the shareholders' meeting of March 21, 1906, at a meeting of the board, which was then, in view of the shareholders' meeting about to be held, calling itself a 'pro-

visional' board. That body ordered the execution and submission to the shareholders of the agreement with Ostrom then proposed. The shareholders at the meeting referred it to the baord elected by them, which referred it to te executive committee. At first, action by the committee was deferred until Hon. Robert Rogers, a member of the committee residing in Winnipeg, where the opposition to Ostrom's scheme was most pronounced, could be present, but on April 12, at an executive meeting at which Ostrom, Gordon and Livingstone were present in person and Graham by a judicious use of the telephone, the purchase was affirmed and the 1,480 shares ordered to be allotted. The minute explains the apparent urgency on the ground that it was expedient

> 'to complete the rate books and policies and enter the insurance field immediately.'

In the following August, shortly before the Winnipeg meeting, and when Ostrom was about leaving for that place, he laid some stock certificates before the president for signature. The president says that he was particular to inquire whether they were in respect of the 1,400 shares, and was assured by Ostrom that they were not. He signed certificates for 240 shares, and says that then, finding upon inquiry from the book-keeper that it was the 1,400 shares which he was issuing, he ceased signing. The certificates signed were taken by Ostrom to Winnipeg and were there given by him to Gordon, who cancelled them. He had assured the objectors at the Winnipeg meeting that the shares would be given up. When that meeting ratified all the acts of the executive committee there was a significant exception made of the resolution regarding these shares. On his return to Toronto, Ostrom procured Vice-president Graham to sign fresh certificates. Graham was at the Winnipeg meeting and was perfectly aware of the situation, but he was apparently prepared to do anything Ostrom asked him to do, except to mislead the Commission with regard to the date when he signed the certificates. It was on the morning of September 4, the day upon which this company's affairs came under inquiry.

When the company was ready to commence business Ostrom's estimate of the value of his services had greatly increased, and he induced the provisional directors to approve and recommend to the shareholders a contract under which he was to receive for five years a salary of $5,000, and a commission of $1 for each $1,000 of new insurance upon which two premiums should be paid. On the termination of the contract whether before or after five years, the commission takes another form. It is to be $1 per $1,000 per year of insurance secured under his management, and is to be payable so long as the insurance remains in force. Besides salary and commission, Ostrom was to be paid the usual agent's commission on all insurance procured by him on the lives of persons not canvassed by the company's agents. A provision that the amount payable should not exceed $25,000 in any one year indicates the value placed by Ostrom upon this contract.

Notwithstanding its important character, the contract does not seem to have been submitted to the shareholders, no reference to it appearing in the minutes of their meeting, but at a directors' meeting held immediately afterwards it was approved,

> 'subject to such increase to Mr. Ostrom as may be agreed upon by Mr. Ostrom and the board of directors.'

This clause was added, Ostrom says, because it was then intended to move to Winnipeg where the cost of living would be increased.

At May 31, 1906, some weeks before obtaining the license, the company had paid out the following sums for expenses, commissions, &c.:

Commissions (*re* Stork Subscription)	$37,571 49
Advances made to Agents	967 00
Salary of Office Staff	9,573 30
Printing, Advertising, Stationery	2,776 72

Travelling Expenses (T. M. Ostrom)	$ 723 05
Telegraph, Telephone, Express, Postage	1,496 57
Legal Expenses	4,039 26
Rent	1,210 00
Montreal Expenses	252 11
Bank Charges	109 71
Sundry Expenses	1,566 85
Accrued Expenses (T. M. Ostrom, May salary)	416 66
Auditors' Fees (Edwards, Morgan & Co.)	250 00
	$60,952 72

Out of the amount paid for commissions, Ostrom received $14,396 for selling stock, and he was also paid during the same period $5,791.67 as salary. Included in his commissions is a sum of $214.50 paid him as in respect of 12 shares of paid up stock which he did not sell, but which were allotted by the provisional directors to Matthew Wilson, K.C., for services prior to incorporation. In the opinion of your Commissioners it is doubtful whether these shares, under the circumstances, were legally issued. The services connected with incorporation seem to have been performed by other solicitors, who were paid $814.26. When the 1,400 shares were first issued to Ostrom for his copyrights, a resolution was passed that he be paid $7,000 commission on these shares also, but two of the directors, Perfect and Scott, objected, and he abandoned the claim.

The munificence with which it was proposed to deal with Ostrom was not entirely absent in the directors' proposed dealing with themselves. At the meeting of December, 1904, on motion of T. H. Graham, seconded by D. A. Gordon, it was resolved that

> '$25,000 worth of stock, including premiums fully paid up, be allotted to Messrs. Cochrane, Livingstone, Graham, Scott, Godfrey and Gordon in equal amounts, in compensation for services for promoting the Monarch Life Assurance Company to date and for further services for one year from date.'

This seems a disproportioante reward to these gentlemen for their attendance at meetings from March, 1904, to December, 1905. The resolution involves besides an entirely erroneous idea of the position and rights of promoters in the creation of this company. It also ignores the fundamental difficulty of nursing an insurance company through its early years with its heavy expenses and small premium income, substituting gross extravagance, if nothing worse, for the cautious economy which is essential. Mr. Matthew Wilson, K.C., advised that the stock thus allotted would be in law unpaid, and that the subscribers would be liable for the full amount, and the plan was abandoned for the time at least. But the minutes indicate that the intention of paying themselves handsomely has never been abandoned. The subject was discussed at the Winnipeg meeting, but no conclusion was then reached.

MUTUAL RESERVE LIFE INSURANCE COMPANY.

The company procured legislation in 1904 (4 Edward VII., cap. 101), whereby it was intended to facilitate the transfer of assessment policyholders to a legal reserve section, giving the assessment policyholders certain options set out in the Act. It is declared that the policyholder exercising 'either of said options' shall be entitled to a dividend of his proportionate share of $152,000 on deposit in the hands of the Receiver General of Canada, applicable to the assessment policies of the company in Canada at the date of license.

The company and the Insurance Branch hold diverse views with reference to the proper interpretation of the statute in so far as the rights of policyholders desiring to continue on the assessment plan are concerned.

The company takes the position that:—

(*a*) Policyholders who retained their old assessment contracts were not allotted any portion of the said sum of $152,000, but that the proportion applicable to such policies remains unallotted;

(*b*) That under the second option as regards allottments made by way of reduction of lien, forfeiture of the contract of insurance, involves forfeiture of the amount by which the lien was reduced, and

(*c*) That all allottments made in reduction of the natural premium under the third option on forfeiture revert to the company.

The Insurance Branch, on the other hand, holds that it was the intention of Parliament, and the stipulations in the Act mean that all the policyholders mentioned are entitled to participate in the allottment of the $152,000, and that the diversion of any part of that amount, whether by failure to allot the same or by forfeiture of sums already allotted, is a violation of the spirit and intent of the legislation.

The main question of construction is one of some nicety. There are three options given, followed by the provision that the policyholder exercising 'either of said options' shall be entitled to his dividend out of the deposit. The policyholder is given in the following section the 'right' to continue his policy under the assessment plan, and it may be that he is excluded by the wording and collocation of the different paragraphs of the section. The minor questions are also difficult.

Your Commissioners are of the opinion that this matter is not one within the scope of the Commission. It involves the determination of rights on the proper interpretation of the statute, and should be left to the decision of the courts.

THE COMMERCIAL TRAVELLERS' MUTUAL BENEFIT SOCIETY.

This society was incorporated on January 27, 1882, by certificate issued under the Friendly Society provisions of the Ontario Insurance Act. It is, therefore, a provincial corporation, but it transacts business in other provinces of Canada under a Dominion license. Its contracts are not confined exclusively to commercial travellers, but it undertakes to insure all non-hazardous lives, those who insure becoming members of the society.

On December 31, 1905, its assets, according to the return made to the Department of Finance, were $58,796.89, and its liabilities $4,538.35, leaving a net surplus of $54,258.54. The policies then in force were 1,878 in number, insuring $1,876,000.

In its early history it admitted members without medical examination, but that was discontinued many years ago.

Its general scheme of insurance is to charge each applicant $2 per annum for expenses, and to collect fixed assessments bi-monthly, half yearly or yearly, which are supposed to be accumulated as an insurance or mortuary fund. There is power to make additional assessments, and the society's policies, following the provisions of the Insurance Act, require them to be made, if necessary to the payment of mortuary claims. Claims are only payable out of the death funds and the proceeds of such assessments.

With the exception of the years between 1890 and 1900, the only provision for expenses has been the $2 per annum per member. During those years the interest realized by investment of the mortuary fund was applied towards expenses. By means of this assistance and economical management the total expenses for the years 1891 to 1905, inclusive, have been kept within the total amounts available, the latter being $60,208, and the former $59,908.

Prior to 1900 the members' ages were grouped for premium rate purposes, as shown in the accompanying tables. No scientific principle seems to have been adopted in the computation of premiums prior to that year. The rates in use from 1881 to 1893 are shown in the second column of the table. In 1893 they were somewhat increased, as shown in the third column. In 1897 the rates for ages between 40 and 50 were readjusted and increased as shown in the fourth column, the rates for earlier ages being untouched. In 1900 or 1902 the rates were very substantially increased (see the fifth column), and the grouping principle was abolished. About that time there was much

anxiety upon the subject of the sufficiency of the rates, and actuarial advice was sought, though it appears that the actuary's rates were not adopted. The rates then fixed are still in force, and approach very nearly to the standard rates deduced by the Hunter and National Fraternal Congress Tables, which are set out in sixth and seventh columns.

Age.	1891.	1893.	1897.	1900–2.	Hunter.	N.F.C.
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
18				9 60	9 86	
19				9 90	10 20	
20				10 20	10 55	
21	6 60	7 20	7 20	10 50	10 91	10 62
22				10 80	11 28	10 92
23				11 10	11 66	11 24
24				11 40	12 03	11 57
25				12 00	12 42	11 92
26				12 30	12 76	12 28
27	7 20	8 10	8 10	12 60	13 12	12 67
28				12 90	13 49	13 08
29				13 20	13 87	13 51
30				13 50	14 31	13 96
31				13 80	14 76	14 43
32	8 10	9 00	9 00	14 10	15 22	14 94
33				14 40	15 73	15 47
34				14 70	16 25	16 03
35				15 00	16 82	16 62
36				15 60	17 42	17 24
37	9 00	10 50	10 50	16 20	18 05	17 90
38				16 80	18 71	18 60
39				17 40	19 42	19 34
40			13 50	18 00	20 18	20 11
41				19 20	20 97	20 93
42	10 50	13 50		20 40	21 81	21 80
43			15 00	21 60	22 70	22 72
44				22 80	23 65	23 69
45				24 00	24 66	24 72
46			16 50	25 20	25 72	25 81
47	12 00	16 50		26 40	27 31	26 91
48			19 50	27 60	28 10	28 20
49			27 00	28 80	29 36	29 51
50	14 40	Nil.	30 00	Nil.		

The method of treating old members when rate advances were made appears to have been to apply the new rates for the original age of entry, the result being that the new rates, though probably nearly adequate in themselves, have not provided any substantial relief in respect of the burden of the old insurance, which has always been and is still being carried at a loss.

The subject will be further discussed, in a later part of the report, where the subject of fraternal societies generally will be dealt with.

THE SUPREME COURT OF THE INDEPENDENT ORDER OF FORESTERS.

Leaving out of consideration for the present such general questions relating to fraternal societies as require special consideration, the history of this important order presents many points of interest. It is much the largest in point of numbers and the widest in geographical extent of all those fraternal organizations with which the Commission has been concerned. Its methods have been aggressive, its accumulation of funds and its distribution of insurance benefits remarkable, its expenditure enormous. It illustrates in a singular degree the possibility of supreme control becoming vested in an individual. Its management has been characterized by extravagance which, in the pursuit of geographical expansion became recklessness. It has succeeded hitherto in inducing Parliament to accord it exceptional recognition as a fraternal society from the insurance standpoint and has incidentally broken through nearly all the barriers interposed by the Department of Insurance in the attempt to keep the statute law of insurance upon an intelligible an consistent footing.

The fraternal society known as the Ancient Order of Foresters had its rise in the United States. By a secession in 1874 the Independent Order of Foresters separated from the parent body, remaining, however, a United States Order. At the time of the secession and for a year afterwards the order confined itself to what are called 'friendly benefits,' but in 1875 the feature of endowment or insurance was added.

In 1876 the first Canadian subordinate court or lodge was established in the province of Ontario, and in 1878 the number of subordinate courts in that province became sufficient for the establishment of a high court, known as the Ontario High Court, and owing allegiance to the Supreme Court in the United States. That high court took out a certificate of incorporation in the province of Ontario under the Friendly Societies' Act. In the same year, 1878, Dr. Oronhyatekha became High Court Ranger for Ontario. A Canadian secession occurred in 1879, the seceders going out under the name of the Canadian Order of Foresters. Dr. Oronhyatekha and his friends, however, remained loyal to the United States Order until 1881, when they also seceded, taking with them the name Independent Order of Foresters, and incorporating as an independent supreme court under the same Act. Dr. Oronhyatekha became the Supreme Chief Ranger, or chief executive officer of the seceding body, which position he has ever since held.

The subordinate courts or lodges have certain limited powers of taxation in respect of their membership, but solely for domestic purposes, as maintenance. They send representatives to the high courts, which sit yearly or biennially or triennially as the case may be, and are composed of the delegates sent by the subordinate courts within their respective jurisdictions. The high courts have as sources of revenue certain charter fees of subordinate courts or royalties in respect thereof, the profits upon sales of supplies to subordinate courts and certain fixed powers of taxation in respect of the membership of the subordinate courts. Their expenses are the salaries and expenses of their officers, including organizers and the expenses of the meetings of the high courts and of the delegates attending them.

Neither the subordinate nor the high court has any direct connection with the insurance scheme of the order.

The Supreme Court, which has met about every three years, is composed of the executive and other officers of the Supreme Court and of delegates elected by the High Courts. Between sittings absolute power is vested in the Executive Council which consists of a Supreme Chief Ranger, a Past Supreme Chief Ranger, a Supreme Chief Vice-Ranger, a Supreme Secretary, a Supreme Treasurer, a Supreme Medical Officer and a Supreme Counsellor.

The Supreme Chief Ranger and his executive have always been supreme, in fact as well as in name. An enactment well devised to stifle criticism is found in what is now article 176 of the Constitution, which prohibits subordinate courts and their members from writing, reading or acting upon any communication relating to the Order without the sanction of the Supreme Chief Ranger or the High Chief Ranger of the jurisdiction.

The sources of income are certain taxes and fees exacted from the whole membership, certain charter fees, and the rates fixed and exacted from the members in respect of benefits, which are divided into mortuary or insurance benefits and sick and funeral benefits.

Apart from the proceeds of certain special taxes there are accordingly three funds:—

(1) Mortuary or insurance;
(2) Sick and funeral;
(3) General or expense.

The constitution permits 5 per cent to be taken from the mortuary fund for addition to the general fund.

Upon secession in 1881 certain rates were fixed, to be charged the membership for the mortuary or insurance benefits. These rates would appear to have been higher

than those prevailing theretofore and may properly be treated as being premium rates. They were compulsory in respect of all members, while the rates charged for the sick and funeral benefits were optional. It does not appear that any technical skill was applied to the fixing of the rates in 1881. The statement made is (page 2205):—

'We resolved to take the combined experience table, I think it was, and take its rates of cost of risk at first entrance and adopt it as the premium rate of the reorganized Order.'

This would appear to point to the term rate for a single year of insurance and this view of it is borne out by what the same witness, Dr. Oronhyatekha, says at page 2214:—

'Q. That is that the tables are founded upon the supposition that a premium intended to carry a risk for one year was sufficient to carry it during life?—A. Oh, yes.

Q. That is right?—A. That is correct.

In 1898, it was deemed desirable to fix a new table of rates.

The underlying principle was (page 2206) to get for our membership the insurance benefit at absolute cost; we did not know what it was, and we set out to find that.'

The method said to have been adopted was to take the expectation of life at age of entry and fix such a premium as would, if invested at 4 per cent during such expectation, produce $1,000, after deducting the 5 per cent for expenses permitted by the constitution to be deducted from the mortuary fund.

The alteration in rates of 1898 did not apply to members who came in before the alteration. They have continued to the present time to pay the old rates.

A table of the rates, both of 1881 and of 1898, which was made up and presented by the order as Exhibit 456 follows:—

Age.	1881 Rates per 1000 monthly.	Present Rates per 1000 monthly.	Difference.	Increase in terms % of 1881 rates.
	$ cts.	$ cts.	$ cts.	
18	.60	.76	.16	26.7%
19	.61	.78	.17	27.9%
20	.62	.80	.18	29.0%
21	.63	.82	.19	30.2%
22	.64	.84	.20	31.3%
23	.65	.86	.21	32.3%
24	.66	.90	.24	36.4%
25	.67	.94	.27	40.3%
26	.68	.98	.30	44.1%
27	.69	1.02	.33	47.8%
28	.70	1.06	.36	51.4%
29	.71	1.10	.39	54.9%
30	.72	1.14	.42	58.3%
31	.73	1.18	.45	61.6%
32	.74	1.22	.48	64.9%
33	.75	1.26	.51	68.0%
34	.76	1.32	.56	73.7%
35	.78	1.38	.60	76.9%
36	.80	1.44	.64	80.0%
37	.82	1.50	.68	82.9%
38	.84	1.56	.72	85.7%
39	.86	1.62	.74	86.0%
40	.88	1.68	.80	90.9%
41	.90	1.76	.86	95.6%
42	.92	1.84	.92	100.0%
43	.95	1.92	.97	102.1%
44	.98	2.00	1.02	104.1%
45	1.02	2.08	1.06	103.9%
46	1.07	2.18	1.11	103.7%
47	1.14	2.32	1.18	103.5%
48	1.22	2.50	1.28	104.9%
49	1.35	2.70	1.35	100.0%
50	1.45	2.90	1.45	100.0%
51	1.55	3.10	1.55	100.0%
52	1.65	3.30	1.65	100.0%
53	1.75	3.60	1.85	105.1%
54	1.85	3.90	2.05	110.8%

The computation of these premiums, even if it were in other respects sound, seem to have altogether disregarded a feature of the insurance scheme which is of material importance. Upon the occurrence of what is called 'total disability,' during the life of the insured member, he became at once entitled to one-half the total amount insured, was relieved from payment of any further premium during his lifetime, and the remaining half of the amount insured was payable at his death according to the terms of the certificate of insurance.

To the general or expense fund, to which five per cent of the mortuary fund was permitted to be carried, were carried also certain certificate and charter registration fees, the profit from sales of surplus (stationery, literature, &c.) and the proceeds of a tax called the 'Extension of the Order tax.' This tax, which embraced under one head certain former taxes, such as capitation tax and 'Forester' (newspaper) subscription tax, is levied upon all members, and is a graduated tax fixed as follows:—

For each member holding		$ 500	of insurance,	5	cents per month.
"	"	1,000	"	10	"
"	"	2,000	"	15	"
"	"	3,000	"	20	"
"	"	4,000	"	25	"
"	"	5,000	"	30	"

This tax was intended to be applied generally towards extending the sphere of the Order's operations, but, as part of the general fund, it was at the disposal of the executive for the purpose of defraying all the expenses of the Order, including salaries and expenses of officers and organizers.

The constitution of the mortuary and general funds, their relation to each other, and the purposes which they were respectively supposed to serve become of much importance when the subsequent financial history of the Order comes to be examined.

In 1889 the Order had made wide extensions into other provinces than Ontario, and were vigorously extending in the United States, and in that year the Order applied to parliament for a special Act of incorporation. It was thought that a Dominion charter would give the Order prestige. The application met with serious opposition from the Department of Insurance. Exhibit 33 contains a report made by the Superintendent of Insurance, Mr Fitzgerald, to the Chairman of the Banking and Commerce Committee. The Insurance Act then in force was R.S.C., cap. 124. That Act made provision for the licensing of *insurance companies,* and it was apparent that its main provisions were intended only to apply to companies maintaining a reserve computed according to the provisions of of section 35. The Independent Order of Foresters did not then nor do they now profess to maintain such reserve. The superintendent appears to the Commission to have been clearly right in the assumption that the Order's incorporation was not, therefore, intended to make the Order subject to those main provisions. Indeed this was the view of the Order itself. Then there was a group of sections, 36 to 42 inclusive, framed for the purpose of dealing with the case of pure assessment companies, meaning companies which collected no premiums properly so-called from those insuring with them, but paid death claims solely out of assessments upon them made for the purpose.

The Independent Order of Foresters altogether rejected the idea that they fell within the catagory, inasmuch as though they had a provision for making an assessment to meet a death claim in case of emergency, their primary and principal means of providing for death claims was the ordinary fund resulting from the collection of level premiums. This contention the Commission thinks was correct, and the superintendent did not in any way disagree.

The point of disagreement was the following: Section 43 exempted *altogether* from the provisions of the statute societies for fraternal purposes, among which purposes the section included the insurance of the lives of the members of such societies exclusively.

But the same section permitted such a fraternal society to bring itself within the Act only on terms of bringing itself under the group of sections relating to pure assessment companies.

The Independent Order of Foresters, the superintendent thought, ought either to remain outside the Act altogether, or to come in as a level premium company maintaining a reserve. He recognized what is now admitted, that the object of incorporation was to secure the *imprimatur* of parliament, and he recommended that seeking such *imprimatur* the Order should conform to the parliamentary requirements.

The result of the contest was the incorporation of the Order by the Act 52 Vic., cap. 104. The difficulty stated was temporarily solved by requiring the Order (sec. 8) to make it plain upon its policies, applications and receipts that its insurance was within the exception contained in the forty-third section applicable to fraternal societies, and was not subject to government inspection.

This Act, so far as it is material to the present report, limited the holding of real property by the Order in Toronto to a value of $100,000.

It further made specific provision with regard to permissible classes of investment. First mortgages on lands held in fee, deposits with Canadian loan and investment companies, registered debentures of such companies, Canadian municipal or school debentures, Dominion or provincial securities and deposits in chartered banks are the only classes permitted.

The statue was probably found, in view of the provision made by the eighth section, not to be particularly promotive of the order's prestige. In 1892 the order applied for registration as an assessment company under the group of clauses in the General Act to which reference has been made. It seems likely that the object of this application was to secure the prestige of a Dominion deposit and license under section 39.

The Treasury Board, however, declined to permit the registry, apparently upon two grounds: one being the impossibility of treating the order as an assessment company at all, in view of its method of collecting level premiums, and the other the express provisions of section 8 of the Act of incorporation.

This refusal was preceded by an opinion from the Department of Justice, in which the additional ground for refusing the order recognition as an assessment company was taken that their insurance contracts included policies in the nature of endowments.

In 1895 the order again applied for legislation, but it is sufficient to say of this application that its general object, which was to secure the right to make a deposit and obtained a license, was not attained, a modified Bill which passed the Commons not having passed the Senate.

In 1896 the order again applied for legislation. On this occasion parliament yielded. It is not difficult to recognize the remarkable diplomacy of the supreme chief ranger in this ultimate triumph.

The order obtained what was practically full recognition as an insurance company, entitled to make the government deposit and to obtain the government license, but not bound to maintain any reserve. The statute professed in some respects to treat the order as an assessment company, ignoring the fundamental distinction pointed out by the superintendent on the former occasion.

The constitution of the order contains a provision for making extraordinary assessments upon the members in addition to the mortuary rates or premiums. In its present form it is section 157 of the constitution, and its purport is to enable the executive to order such extra assessments whenever and so often as the available mortuary funds become reduced to less than the amount of claims passed by the executive within the then preceding sixty days. This is spoken of by the supreme chief ranger as the 'safety' clause. It seems manifest upon the evidence, and is indeed plain upon the face of the clause itself, that resort is not intended to be had to this provision until the accumulation of surplus mortuary funds, amounting now to more

than $8,000,000, has practically disappeared, and the executive has always made it a feature of its fraternal system as compared with the systems of other fraternal societies that the members always know exactly how much they have to pay to keep their insurance on foot. It is not the case of an assessment company whose members have never paid premiums at all, but have always paid mortuary assessments as the consideration for their insurance, but a case where those insured have always paid level premiums professedly fixed as being sufficient to provide for the cost of insurance. It seems manifest, therefore, that should the 'safety' clause be resorted to, under these circumstances, and after the loss of $8,000,000 of surplus accumulated from premiums, the result would be final and complete disaster. The Independent Order of Foresters, therefore, presents the anomaly of an insurance company doing business upon the level premium basis, but making no pretense of maintaining the legal reserves, save that the public is to be informed that no reserve is required to be maintained by it, and save that its policies must be endorsed with the fiction 'Assessment system.'

This statute further increased the powers of the order in respect of holding real estate in Toronto from $100,000 to $350,000, a provision which had been boldly anticipated, and indeed already greatly exceeded in the ambitious Temple Building project.

It also permitted investment or deposit outside Canada of such portion of the funds of the order as might be necessary for maintenance of foreign branches, not exceeding, however, one-fourth of the available surplus.

The limitation upon amount of any insurance was raised from $3,000 to $5,000, but the order was prohibited from issuing annuities or endowment policies. (The Old Age Disability Benefit, now provided for by section 158, subsection 20, of the constitution, appears to be in part of the nature of an endowment, and the provision is probably to that extent invalid.)

The liability of retiring members was limited to such assessments, dues, fees, taxes and fines as had been notified to them or had matured and become due at the date of retirement.

The only other statute to which reference need be made for the purposes of this report is the statute of 1901.

This Act made an alternation in the powers of the order in respect of holding real estate. The limitation is made by yearly instead of by capital value, $30,000 per annum is substituted for the capital value of $350,000 fixed by the Act of 1896.

By this Act, also, the order's powers of investment were widened so as to coincide with the general powers given by the fiftieth section of the Insurance Act.

The history of the Order with regard to foreign extensions has been instructive and so interesting as to be almost picturesque.

The United States field was invaded at an early date. In 1891 the Supreme Chief Ranger reported to the Supreme Court in part as follows:—

> 'Since the last session of the Supreme Court we have instituted High Courts in Minnesota, New York, California, North Dakota, Illinois and Missouri. We have also broken land in Oregon, Washington, Colorado, Montana, Arizona, Wisconsin, Pennsylvania and Kansas.'

The same report speaks of the extension of the Order to Great Britain, where it seems to have spread in that or the previous year, but it does not appear to have made much headway there till the organizing visit of the Supreme Chief Ranger in 1897. He took with him a considerable organizing staff among whom were Messrs. Marter, McNair, Williams, Gilmore and Campbell. The result of the work in Great Britain is summed up in the following table:—

GREAT BRITAIN AND IRELAND.

RECEIPTS.

Years.	Mortuary.	Sick and Funeral.	General or Expenses.
	$ cts.	$ cts.	$ cts.
1896	45,155 65	252 28	4,442 04
1897	52,866 49	267 23	6,158 09
1898	68,873 81	365 72	9,148 37
1899	86,038 12	439 41	11,774 81
1900	94,022 86	546 17	9,743 79
1901	106,793 46	643 32	11,129 05
1902	118,841 93	628 70	11,372 90
1903	127,211 11	699 22	11,776 74
1904	129,812 62	636 14	11,733 99
1905	135,003 64	631 45	11,587 32
	964,619 69	5,109 64	98,867 10
5 per cent to General	48,230 95	.....	48,230 95
	916,388 74	.....	147,098 05

DISBURSEMENTS.

Years.	Mortuary.	Sick and Funeral.	General or Expenses.
	$ cts.	$ cts.	$ cts.
1896	11,237 16	23 86	24,456 47
1897	14,135 49	103 16	30,596 82
1898	37,666 53	44 83	53,412 96
1899	24,931 54	167 95	36,372 61
1900	34,826 95	307 95	36,168 51
1901	51,144 07	271 79	42,209 43
1902	30,898 50	420 83	43,957 95
1903	43,301 34	64 29	39,952 27
1904	54,630 83	318 02	37,422 04
1905	61,320 09	178 35	26,688 21
	364,092 50	1,901 03	371,237 27

Showing an outlay in organizing and other expenses of $371,237.27 as against total receipts on expense account of $147,098.05.

The Supreme Chief Ranger went to the continent of Europe in the following year, 1898, the necessary resolution being passed by his executive council, to make inquiries and take initial steps to introduce the Order there. He appeared to have travelled over parts of the continent, including France and Italy, and he even went so far as Egypt, where he initiated one person into the Order, but his journey seems, so far as the interests of the Order were concerned, to have been substantially confined to a survey of the territory. In the meantime, as shown by his report to the Supreme Court in the summer of 1898, the manager for Great Britain, Mr. Marshall, appears to have stimulated progress in Norway, where a high court was established on July 7, 1898. This opened what was called the Scandinavian field, including Norway and Denmark, in which the first outlay took place in that year. The expense of working this field and the crop reaped there were as shown by the following table:—

SCANDINAVIAN.

RECEIPTS.

Years.	Mortuary.	Sick and Funeral.	General or Expense.
	$ cts.	$ cts.	$ cts.
1896			
1897			
1898			
1899			
1900	196 05	0 48	14 04
1901			
1902	1,275 90	0 96	80 33
1903	5,323 11	5 57	364 34
1904	5,762 46	5 51	360 09
1905	6,453 04	204 85	406 84
	19,010 56	217 37	1,225 64
5 per cent to general	950 50		950 50
	18,060 06		2,176 14

DISBURSEMENTS.

Years.	Mortuary.	Sick and Funeral.	General or Expense.
	$ cts.	$ cts.	$ cts.
1896			
1897			
1898			811 02
1899	2,000 00		1,367 71
1900			4,117 52
1901			10,400 93
1902	1,459 98		22,567 90
1903			21,622 07
1904	1,949 16		14,147 49
1905	1,478 42		12,709 64
	6,887 56		87,744 28

The expenses incurred being $87,744.28 as against total receipts on expense account $2,176.14.

The only other continental field which was occupied, was that known as France and Belgium. The results there were as follows:—

FRANCE AND BELGIUM.

RECEIPTS.

Years.	Mortuary.	Sick and Funeral.	General or Expense.
	$ cts.	$ cts.	$ cts.
1896			
1897			
1898			
1899			
1900	233 07	13 23	23 26
1901	773 54	28 19	38 34
1902	1,646 25	50 49	88 35
1903	1,749 35	33 03	94 75
1904	1,621 00	30 86	91 30
1905	1,207 48	27 16	53 31
	7,230 69	182 95	389 31
5 per cent to general	361 50	.....	361 50
	6,869 19	.....	750 81

DISBURSEMENTS.

Years.	Mortuary.	Sick and Funeral.	General or Expense.
	$ cts.	$ cts.	$ cts.
1896			
1897			
1898			
1899			
1900			12,775 08
1901			6,802 30
1902			5,244 82
1903	1,218 61	.....	1,265 51
1904	.....	90 45	293 88
1905	244 00	84 29	171 43
	1,462 61	174 74	26 553 02

At the meeting of the Supreme Court in 1898 the Supreme Chief Ranger was given the usual free hand with regard to opening up the work of the order in Australia, New Zealand, Van Dieman's Land, South Africa, India and 'islands and countries contiguous thereto,' and in October of the following year he was furnished with a letter of credit for $25,000, and proceeded with his staff to India and Australia. A high court was established for Bengal and a subordinate court at Calcutta, and in Australia the foundation work was made to cover the states of Victoria, South Australia, and New South Wales.

The financial results of the work of the order in these two jurisdictions will appear from the following tables:—

INDIA.

RECEIPTS.

Years.	Mortuary.	General or Expense.
	$ cts.	$ cts.
1900	8 09	0 25
1901	1,414 45	912 17
1902	1,928 94	504 26
1903	2,870 21	151 51
1904	2,732 34	124 29
1905	3,317 68	156 99
	12,271 71	1,849 47
5 per cent to general	613 55	613 55
	11,658 16	2,463 02

DISBURSEMENTS.

Years	Mortuary.	General or Expense.
	$ cts.	$ cts.
1900		3,272 10
1901		7,422 20
1902		8,314 89
1903		2,684 84
1904	964 02	
1905	1,999 54	4,169 10
	2,693 56	25,863 13

AUSTRALIA.

RECEIPTS.

Years.	Mortuary.	General or Expense.
	$ cts.	$ cts.
1900	1,621 19	528 57
1901	13,553 32	2,176 67
1902	22,006 68	2,329 89
1903	32,706 36	2,657 89
1904	29,608 22	2,018 26
1905	28,538 25	1,824 68
	127,834 02	11,535 96
5 per cent to general	6,391 70	6,391 70
	121,442 32	17,927 66

DISBURSEMENTS.

Years.	Mortuary.	General or Expense.
	$ cts.	$ cts.
1900	2,427 77	35,726 57
1901	.....	128,516 86
1902	2,433 31	151,687 89
1903	8,289 46	42,854 30
1904	8,462 23	52,712 00
1905	6,862 05	29,973 93
	28,474 82	441,471 55

Combining the tables above for Great Britain, Scandinavia, France and Belgium, India and Australia, we obtain the following eloquent results:—

	INSURANCE.		EXPENSES.	
	Premium. Receipts.	Benefits Disbursed.	Received.	Paid out.
	$ cts.	$ cts.	$ cts.	$ cts.
Great Britain	969,730	365,994	98,867	371,237
Scandinavia	20,237	7,839	1,226	87,744
France and Belgium	7,414	1,638	389	26,553
India	12,272	2,964	1,849	25,863
Australia	127,834	28,475	11,536	441,472
	1,137,487	406,910	113,867	952,869
Add to expense receipts 5 per cent of	1,137,487	.....	56,874	.....
	1,137,487	406,910	170,741	952,869

The difference between $952,869 expenses paid out in the occupation of these fields, and $170,741, the amount received properly applicable to expenses, or $782,127, represents the resultant encroachment upon mortuary or other benefit funds.

The tide of extravagance which was flowing in Australia seems to have alarmed the Supreme Chief Ranger, and in the interests of economy, Hon. Dr. W. H. Montague was sent out to Australia armed not only with a contract with the Order for five years from February 1, 1901, but also with a sort of Royal commission signed and sealed by the Supreme Chief Ranger, naming him inspector general of the Order, and giving him rank and precedence over all managers, district superintendents and deputy supreme chief rangers in any jurisdiction which he might visit. How this gentleman carried out his mission of economy may be judged by a glance at the Australian figures already given for 1901 and 1902, which years cover the history of Dr. Montague's Australian work. The receipts on expense account during those years were $2,176.67 and $2,329.89, respectively, and the expenditures on general account $128,516.86 and $157,687.89, respectively. In 1900 the expenditure on these accounts had been $35,726.57, and it fell in 1903 to $42,854.30.

No doubt the fall in the figures after 1902 was largely due to the unfortunate episode, the culmination of which was the finding by a Royal commission, appointed by the government of Victoria, that Dr. Montague, the accredited agent of the Order, had been guilty of a corrupt offer of money to a member of the legislature, and of a corrupt payment of money to the Prime Minister, in the interest of and for the benefit of the Order. What his relations with the Prime Minister were is sufficiently indicated by a

very full report made by him and forming part of exhibit 453. The Prime Minister was to

> 'vindicate us (the I.O.F.) by personally answering in parliament questions which I would prepare and have asked in the House, and the answers to which I would prepare for him.'

This Commission does not deem it necessary to offer any comment upon this occurrence, save to mention it as a part of the history of the Australian extension.

At the date when the Order came under supervision by the department, which was after the Act of 1896, the department commenced and persisted in adverse criticism of the deficit in the general or expense fund, caused by the excess of expenditure over the expense revenue from all sources. This deficit was very largely due to the enormous comparative expenditure in the foreign fields to which reference has been made. According to the returns made to the department by the Order it has been steadily growing since the year 1900. The following figures are taken from the returns:—

December 31,	1900,	deficit	$ 28,962
"	1901	"	277,324
"	1902	"	254,684
"	1903	"	348,947
"	1904	"	407,582
"	1905	"	442,953

The pressure brought to bear by the department seems to have resulted in the appointment on December 7, 1901, of a committee of the executive of the Order, with a view to an immediate adjustment of the deficit. The committee reported on January 4, 1902, recommending that one-half of the deficit should be borrowed from the sick and funeral fund, and the other half from the contingent fund, to be repaid at the rate of $10,000 per month, commencing March, 1902. This report was adopted. The contingent fund consisted of interest upon the accumulated funds, and its constitution and purpose are very fully defined in what is now section 33 of the constitution. The action of the executive in designating this fund as a source of making good, even temporarily, the deficit in the general fund, would seem to have been unwarranted. Its purpose being the maintenance and augmentation of the mortuary fund, the executive had no power, without the sanction of the Supreme Court, to divert it to any other purpose, even temporarily.

Nothing seems to have followed upon the adoption of this report, in the nature of a refund by instalments or otherwise, until the meeting of the Supreme Court of that year. At this meeting it was determined to divert from the mortuary fund the profits accruing from lapses and temporary insurances, and apply those profits to the strengthening of the general fund. It was also determined to carry to the general fund all interest in excess of 4 per cent earned by the mortuary fund. To these changes, as well as to the loan of any portion of the mortuary fund to the general fund, Mr. Fitzgerald seems to have firmly objected. He also insisted upon a general curtailment of expenditure, so as to bring and keep same within the limits of the general fund. Upon this, Mr. Stevenson, the Supreme Counsellor, had a conference with the superintendent, the result of which he reported to the executive on February 23, 1903. His report is fully set out in the minutes of that body. Among other things the superintendent, as this conference, urged the keeping of the mortuary and general funds in separate banking accounts, so as to make it impossible that cheques drawn for expenses should be paid out of mortuary funds, and he threatened to draw attention to the matter in his annual report unless the curtailing of expenditure to the extent necessary to avoid overdrawing the general fund were at once determined upon. The Supreme Chief Ranger was then out of the country, but the executive council immediately resolved in general terms upon curtailment according to the demands made by the superintendent, and deputed Mr. Stevenson to proceed to Egypt to see the Su-

preme Chief Ranger, and confer with him so that plans might be formulated by him for curtailment. Steps were ordered meantime to be taken to abridge the official organ and to discontinue advertising. The meeting between Mr. Stevenson and the Supreme Chief Ranger seems to have taken place, but nothing practical followed. On December 19, 1904, the overdraft in the general fund having grown in the meantime, from December, 1901, the date at which the executive first took the matter up, from $277,324 to $407,582, the executive passed a resolution which, singularly enough, in view of all that had taken place, authorized the Supreme Chief Ranger to borrow

> 'from the sick and general fund or any other available fund such sum or sums, in addition to what has been heretofore expended, as may be required to liquidate all obligations incurred or to be incurred in completing the Orphans' Home on Foresters' island,'

and provided further that such sums should be repaid out of the Orphans' Home fund 'whenever the condition will warrant.'

It is suggested that this resolution was not intended to warrant depletion of the mortuary fund, and that the sick and funeral fund was not within the protection of the Insurance Department at all. But whether that contention is well founded or not, it is manifest that further inroads continued to be made upon the mortuary fund notwithstanding all the protests of the department and the virtuous resolutions of the executive.

Matters stood in this position, with a growing deficit in the general account, until October 16, 1905, when the following resolution was passed:—

> 'Whereas there has been various sums of money borrowed at different times since the Supreme Court meeting of 1898 from the mortuary fund, the contingent fund and sick and funeral fund for the purpose of the general fund;
>
> And whereas the aggregate amounts of such loans from such funds with interest added to this date at the rate of 4 per cent per annum is as follows:—Mortuary, $297,587.75; interest, $30,213.93. Contingent; $171,272.33, interest, $22,326.22. Sick and funeral, $110,994.55; interest, $19,539.89 ;
>
> And whereas it is deemed proper that such amounts, with interest, be repaid to such several funds ;
>
> And whereas it is impossible, without suspending or seriously embarrassing the work of the society, to repay the several amounts in one payment or in large payments ;
>
> And whereas such funds are not at this time and it does not appear to be likely that they will in the near future be in need of such money :
>
> Be it therefore resolved that such indebtedness of the general fund to such several funds be funded and paid as follows :—$35,000 with interest at the rate of 4 per cent per annum at the end of each year for five years after this date, $30,000 with interest at said rate at end of each year for five years commencing with A.D. 1911, $25,000, with interest at said rate, at the end of each year of five years, commencing with A.D. 1916, $20,000, with interest at said rate, at end of each year, commencing with A.D. 1921.
>
> And be it further resolved that the Supreme Chief Ranger, the Supreme Secretary and Supreme Treasurer execute and issue under the seal of the corporation, debentures for such amounts to be designated 'general fund debentures' and made payable as above specified, with interest at said rate, and that such debentures when issued be a charge against the general fund of this society in favour of the funds above indicated.
>
> And be it further resolved that there be set aside from the income of the general fund, commencing with the month of January, 1906, and continuing during each month thereafter until the several amounts of such debentures with interest be paid in full a sum sufficient to pay at the end of each year the debentures that will then mature and the interest that will accrue thereon.

And be it further resolved that the several amounts of such debentures when paid be credited as follows:—for the loans made from the mortuary and contingent funds to the mortuary fund, for the loans made from the sick and funeral fund to the sick and funeral fund.

Whereas the Supreme Chief Ranger in carrying out the plan for the erection and equipment of the Orphans' Home on Foresters' Island has incurred in the name of the society obligations aggregating more than $50,000 above the $100,000 borrowed for that purpose from the sick and funeral fund, for material, labour, machinery, &c., entering into the construction and equipment of such home.

And whereas it is therefore expedient to furnish $50,000 to meet such obligation.

Be it therefore provided that the Supreme Chief Ranger, the Supreme Secretary and Supreme Treasurer issue $50,000 in debentures, 10 of $5,000 each, payable on or before one year from date, with interest at 4 per cent and borrow from the Standard Bank of Canada thereon the sum of $50,000 to be used in retiring obligations so incurred in connection with the erection and equipment of such orphans' home and that such debentures be designated orphans' home debentures and be a charge against the general fund of this society.

Resolved further that the Supreme Chief Ranger, the Supreme Secretary and Supreme Treasury issue like debentures for $100,000 to be held by the society as evidence of the indebtedness incurred in borrowing sums of money aggregating that amount from the sick and funeral fund to construct and equip such orphans' home and that such debentures be made payable on or before ten years from date and bear interest at said rate and that such interest be paid in equal monthly instalments out of the orphans' home contributions provided for by enactment of the Supreme Court at its last session, such interest charge to be treated as a part of the expense of maintenance of such orphans' home.

Resolved further that interest at the rate of 4 per cent per annum be charged upon the sums so borrowed from the sick and funeral fund from the date of the several loans so made for such purpose and that the amount of such interest accrued to this date be charged against the orphans' home contributions.'

It should be noticed that the recited indebtedness covers and reassumes certain 'borrowing' by the general fund from the mortuary fund and the sick and funeral benefit fund as follows:—

Mortuary fund	$171,272 33
Sick and funeral fund	110,994 55

both of which the Supreme Court is said, at its 1902 convention, to have forgiven and written off.

This extraordinary resolution discloses a total depletion of the mortuary fund and of the contingent fund which formed part of it of $521,400.23, including interest, and a total depletion of the sick and funeral fund of $230,534.44, including the money 'loaned' to the orphans' home fund. It recognizes the impossibility of discharging those enormous obligations without suspending or seriously embarrassing the society's work. It proposes an impossible and absurd security, which was never given. It spreads the payments over a period of twenty-four years. At the date of the examination of the Supreme Chief Ranger upon this subject, September 19, 1906, nothing whatever seems to have been done towards preparing to meet the first payment. The resolution and its express requirements in this respect appear to have been completely ignored.

With regard to the curtailment of expenditure, the executive council on April 9, 1906, purporting to act upon the recommendation of the Supreme Chief Ranger, though he denies that he agreed in the policy, resolved to practically abandon the whole foreign field, and to confine the expenditure of money for organization or extension purposes to Canada and the United States. In terms, the resolutions embodying this alteration in policy provided for the closing of the India office, the discontinuance of all further work in France and the confining to Canada and the United States of

expenditure in the organizing field. The membership in the jurisdictions expressly abandoned will probably, in the absence of organization, dwindle and disappear. In the jurisdictions which have not been expressly abandoned there seems no reason to doubt that the discontinuance of large organizing expenditure will make itself felt in general apathy and a consequently reduced membership. Business which required so great an artificial stimulus to create results so disproportionate can better the general interests of the order only by its depth.

Such is the history of an ill-advised and extravagant attempt to carry the fraternal methods of this order into foreign and unsuitable fields, and of the consequent breach in its mortuary resources, a breach whose healing up to September 19, 1906, rested solely upon the resolutions of an executive which for years had been passing similar resolutions only to break them.

The meetings of the Supreme Court have always been unduly expensive, on two occasions so much so as to be startling. In 1895 the meeting was held in London. On this occasion a steamship was chartered to carry the delegates, or some of them, from Canada and the United States. To quote an expression used by the Supreme Chief Ranger, there was always 'money to burn' when the order was to be advertised. The meeting that year cost the order $71,857.26.

In 1898 Toronto was the place of meeting. The cost of that meeting, no doubt partly because of the place of meeting being central in situation, was $32,843.34. In 1902, when the Supreme Court visited Los Angeles, the meeting cost the order no less a sum than $88,871.69. In 1905, meeting at Atlantic City, the cost was $39,767.12.

The Supreme Chief Ranger states that it has been determined that, for the future, all Supreme Court meetings shall convene at Toronto.

The salaries of the chief officers have been as follows:—

	1896.	1897.	1898.
	$ cts.	$ cts.	$ cts.
Oronhyatekha, M.D., S.C.R.	10,833 29	9,999 96	9,999 98
John A. McGillivray, S.S.	6,000 00	6,000 00	6,000 00
H. A. Collins, S.T.	1,999 92	1,999 92	2,249 94
Dr. T. Millman, S.P.	6,000 00	6,500 00	6,000 00
B. W. Greer, S. Auditor	1,100 00	1,500 00	1,250 00
C. R. Fitzgerald, S. Auditor	1,000 00	1,000 00	1,750 00
	26,933 21	26,999 88	27,249 92

	1899.	1900.	1901.
Oronhyatekha, M.D., S.C.R.	16,666 60	3,333 32	9,999 96
John A. McGillivray, S.S.	6,000 00	6,000 00	6,000 00
H. A. Collins, S.T.	2,499 96	2,499 96	2,499 96
Dr. T. Millman, S.P.	6,000 00	6,000 00	6,000 00
B. W. Greer, S. Auditor	3,500 00	2,000 00	2,000 00
C. R. Fitzgerald, S. Auditor	2,500 00	2,000 00	2,000 00
	37,166 56	21,833 28	28,499 92

	1902.	1903.	1904.	1905.
	$ cts.	$ cts.	$ cts.	$ cts.
Oronhyatekha, M.D., S.C.R.	9,999 96	9,999 96	8,333 30	12,083 31
John A. McGillivray, S.S.	6,000 00	5,500 00	6,500 00	6,416 65
H. A. Collins, S.T.	2,499 96	2,499 96	2,499 96	4,374 96
Dr. T. Millman, S.P.	6,000 00	6,000 00	6,000 00	6,416 65
B. W. Greer, S. Auditor	2,200 00	2,000 00	2,000 00	1,999 99
C. R. Fitzgerald, S. Auditor	2,200 00	2,000 00	2,000 00	1,999 99
C. H. Rose	729 29	6,083 26	5,369 31	1,683 32
Dr. A. Oronhyatekha	150 00			
	29,779 91	34,083 18	32,702 57	34,974 87

The salaries, wages and organizing expenditures for the ten years, 1896 to 1905, were as follows:—

Salaries	$322,330
Office employees' wages	600,504
Organizers' salaries	945,549
Organizing expenses	771,496
Bonuses and commissions to organizers	76,304
	$2,716,183

The official organ, 'The Forester,' during the same period cost $345,401.

The Orphans' Home has cost about $230,000, $100,000 of which was 'borrowed' from the sick and funeral fund, and $50,000 from the Standard Bank.

The executive established and maintained a restaurant which was finally closed up at a loss of $41,387.

When the Temple building was projected in 1895 the power to hold real estate was limited to a value of $100,000. The estimate of cost was between $700,000 and $800,000. The statutory limitation had no terrors for the Supreme Chief Ranger. He says (page 2330):—

> 'We just went right on with the building. . . . . expecting at some future date that parliament would get wiser and give us the power to hold our property here.'

The executive council had determined upon the scheme of its own initiative and purchased part of the land upon which the building was to be erected before submitting the plan to the Supreme Court, which was done in August, 1895.

In 1896 the legislation authorizing the holding of real estate to an extent sufficient to cover the estimated cost was sought, but parliament deemed $350,000 sufficient for all reasonable purposes and made that sum the limit. This was not permitted to make any real difference in the plans of the executive, though various devices were adopted to disguise their defiance of parliament. A Miss Bailey, who was a clerk in the head office, figured as a purchaser of one parcel of land which she went through the form of mortgaging to the order for $200,000. When the statutory limit was raised to $350,000, she promptly conveyed to the order, and was paid $1,000 for her assistance.

The creation of the Ontario Realty Company was the next device adopted. The sole purpose of its creation was to evade the Statute. To it was conveyed an undivided two-fifths interest in the property for the ostensible consideration of $240,000, a mortgage back for that sum being given. The building was then about completed and the cost then of land and buildings was estimated at such a sum as would bring the remaining three-fifths within the statutory limit of $350,000. When the land for the building annex was purchased, Mr. Hunter, the general solicitor of the order, was the nominal purchaser, mortgaging as in the former instance, and the land stood in his name from the date of purchase, January 15, 1898, till the Act of 1901 was passed, by which the holding power was extended to an annual value of $30,000. The Supreme Chief Ranger says:—

> 'It was not safe to transfer the property over to us, because of its increasing the amount of our holding powers probably beyond the Act.'

The Statute of 1901 was assented to on April 15, 1901. On the following day the Ontario Realty Company conveyed its holding to the order and Mr. Hunter conveyed his holding during the following month.

The total amount expended in land and buildings was $951,509.49, of which $92,880.68 was written off in December, 1899, and $144,177.99 in December, 1900, leaving the book value of the asset $714,450.82.

The history of the order in respect of its investments since 1901, is the history of the Union Trust Company. On January 6, 1900, the Executive Council resolved:

> 'That we purchase a controlling interest in the Provincial Trust Corporation of Ontario by the purchase of its stock from time to time as we can secure the same with the view of obtaining said control at the earliest possible date.'

This resolution is the only direct sanction preceding what became ultimately an investment, in capital stock alone, of no less than $2,745,600 of the funds of the Order. The Provincial Trust Corporation was a moribund institution with a capital originally small, and which had become much impaired. Its assets represented 65 cents on the dollar of its paid up capital of $113,700.

Mr. William Laidlaw, K.C., was employed by the Supreme Chief Ranger to secure the control of this corporation, and Mr. Matthew Wilson, K.C., who was one of its directors, was entrusted by his fellow directors with negotiating the sale of such control. Under their guidance the scheme rapidly grew, until it became a scheme for the acquisition by the Order of the whole of the capital stock. When this object had been attained the scheme became still more ambitious. A new company with a capitalization of $1,000,000 paid up stock was to be built upon the ruins of the old. But while the petition for incorporation was under consideration by the Governor in Council this capitalization was increased to $2,000,000. At first the public was to be invited to contribute to the capitalization, but as the possibilities of the scheme developed, its authors accustomed themselves to less generous views, until ultimately the Order itself became sole holder of the capital stock (buying at 110) save forty shares, subscribed and paid for by the late Judge McDougall, the Hon. George E. Foster, Mr. Matthew Wilson, K.C., and Colonel John I. Davidson, each of whom took ten shares, and a seat on the board. The objection raised by the Ontario Government to the issue of an additional Trust Company charter was surmounted by a surrender of the charter of the old company.

It is not to be supposed that the promoters of this investment were indifferent to the fact that the capital funds embarked were not any longer to be confined to the classes of investment permitted by the Insurance Act. They could not, as money of the Order, be laid out in speculative schemes, but as money of the Trust Company they were supposed to have been enfranchised and to be available for any scheme, however foreign to the trust upon which they were held.

Nor is it to be wondered at that in the development of this enterprise private advantages were regarded, and those of the Order disregarded. Mr. Wilson in these negotiations, as in later cases, was paid by both sides. The Union Trust Company, to which (according to the affidavit of Mr. Foster when the old charter was surrendered) had been transferred all the assets of the Provincial Trust Company, succeeded in unloading upon the Foresters, in a manner which no witness has ventured to explain, such of those assets as were considered bad or doubtful.

It was attempted to account for the creation of this company as a sort of investing department of the Foresters. This explanation might have applied to the original scheme, which was to obtain a controlling interest in the small capital stock of the Provincial Trust Company, though an investing department might well have been organized and equipped without even that outlay. But it appears impossible to attribute the scheme in its final development to any such idea. The purpose then was undoubtedly to embark in speculative transactions.

Mr. Foster, who was invited to become the managing director, and whose financial experience was great, says in his letter to the Supreme Chief Ranger, of April 30, 1901:—

> 'I have thought carefully over the matter from my own standpoint and from that of the company and of the Order of which you are the head and its large and steadily increasing financial interests which necessitate great care and responsibility

in the matter of investments. It seems to me that a trust company with a small paid-up capital and depending alone on the general field for its business would require many years and much hard work to place itself in position to return any considerable profit to its shareholders. The field is not a wide one, and is already pretty well occupied by older and well established companies. . . . . To make our business foundation broad and firm we should make sure of a generous paid-up capital so as to give confidence to our patrons and provide a basis for operations on an active and enterprising scale. We cannot afford to go limping along at slow gait.'

The letter concludes:—

'I can see the elements of a powerful and profitable combination if we can only bring them together.'

There is nothing uncertain in the policy so outlined and advised, and it was the policy which, in its development, determined the status of the Union Trust Company as a large and bold operator with the moneys of the Foresters forming its capital.

The company was not intended to obtrude its paternity upon the public with whom it was to do business, nor was it deemed prudent that the personnel of its directorate should indicate its real relation to the Order. In his letter of May 27, 1901, Mr. Foster advises:—

'But whilst in reality the Trust Company will be controlled by the Foresters, it is not best that that point should be emphasized to the public—but rather the contrary. To that end we should, I think, be most careful in the selection of directors.'

Accordingly, when the company organized in September, 1901, out of the board of seven, four were the gentlemen already mentioned, gentlemen whose names had not in any way been identified with the Order, viz.: Judge McDougall, Mr. Foster, Mr. Wilson and Colonel Davidson. All of them owned their qualifying stock. The changes made in the board down to the commencement of this inquiry were two in number. Sir John Boyd, the Chancellor of Ontario, succeeded Judge McDougall on the latter's death, in February, 1903, purchasing the qualifying stock from Judge McDougall's estate. In the annual meeting of shareholders in February, 1905, the Hon. George W. Ross was added to the board, purchasing shares to the number of ten. The Chancellor retired in October, 1905.

Upon the organization of the company in September, 1901, an agreement was made between the Order and the company by which all uninvested surplus cash funds of the Order were to be handed over to the company for investment in the name of the Order and in investments authorized by the Insurance Act. The company guaranteed the investments and a 4 per cent rate, retaining as remuneration all interest realized in excess of 4 per cent.

Thus the Union Trust Company became a great engine of investment for the Foresters. No limitation upon investments was made with reference to the Insurance Act so far as the moneys of the Foresters took the form of capital stock. The operations of the company were bold and multifarious, embracing timber limits, saw-mills, western lands, United States railway securities, residential flats and loans and other assistance to officers in their private speculations.

Of United States railway and foundry securities alone the company held on December 31, 1905, at a cost of $449,109.68, securities whose estimated value was then only $347,500.

The company at the same date had, besides, the following assets:—

Kamloops Lumber Co.	$ 315,000 00
Alexandra Palace shares.	150,000 00
Alexandra Palace stock.	130,000 00
Improved Realty Co's stock.	60,000 00

Union Bank shares	168,000 00
Northern Bank shares	50,000 00
Nanaimo bonds	26,005 00
Crow's Nest Pass Coal	12,500 00
Total	$ 911,505 00
which, added to the above	449,109 68
Makes a total	$1,360,614 68

On October 6, 1902, the directors passed a by-law, ratified by the shareholders on November 1, of same year, increasing a previous borrowing of $200,000 from the banks to $400,000. This borrowing was principally to enable the company to carry speculative securities. Besides this special borrowing, it overdrew its account with the Standard Bank to the extent of about $210,000, and borrowed $259,000 from the Traders Bank, the last sum being borrowed to enable a loan on Crow's Nest Coal stock to be carried by certain gentlemen, one of whom was the general solicitor for the company.

In February, 1904, the directors called up the unpaid 50 per cent of the original $2,000,000 capital, and in December, 1905, they took power to increase the capital to $2,500,000, the new capital being all taken up by the Foresters at 110. This transaction enabled them to pay off that sum upon the public liabilities of the company and to lay before the shareholders a statement of assets and liabilities showing a gain of $8,955 on profit and loss account. These increments to the company's resources were sometimes conveniently made to enable the company to proceed with great speculations, and sometimes rendered necessary in order to the discharge of the company's obligations.

In March, 1902, Dr. Montague, who was then Deputy Supreme Chief Ranger of the order, took up the idea of making a large purchase of lands in Manitoba and the Northwest. He associated with him in interest the Supreme Chief Ranger, the Supreme Secretary and Mr. Foster, the managing director of the Union Trust Company. The idea involved borrowing from the order the funds necessary.

In the minutes of March 28, 1902, which authorized the loan, the land is spoken of as 100,000 acres, and the loan as $4 per acre. But when, on May 1, 1903, to carry the speculation, the lands, which appear then to have been conveyed to Dr. Montague, were mortgaged by him to the order, they were 44,267 acres, and the moneys covered by the mortgage and which then formed the subject of the speculation, were $133,000.

The lands were on the same day conveyed in trust to the Union Trust Company, and the ultimate trust, subject to the mortgage, appears to have been in favour of the four gentlemen named, though they are not named as beneficiaries in the trust deed.

The Trust Company seems to have subsequently been made the depository of further cash advances by the order, to be handed over to the syndicate of four to buy further lands. Accordingly, in 1903, the syndicate purchased what were known as the Carrot River lands, amounting to 40,960 acres, at $5 per acre, the money being found by the Independent Order of Foresters and the lands being conveyed to the Union Trust Company in trust. In the same year, 65,280 acres were purchased for $322,336 from Mr. Aird, of Winnipeg, the Independent Order of Foresters advancing to the Trust Company, and the latter taking a conveyance in trust for the syndicate. All these advances as made, were supposed to be added to the mortgage security to which reference has already been made. The Swan River lands were similarly purchased in the same year, the quantity being 9,920 acres and the price $52,080, and the conveyancing being arranged as in the other cases.

In connection with the purchase of the Carrot River lands, a commission of $10,000 was due by the vendors to one Pritchard, their agent. Of this commission Mr. Foster received one-half, or $5,000, causing a cheque of the Union Trust Company to issue to his order for the amount, and deducting it from the first payment to the vendors. This, he says, he divided equally among the members of the syndicate, and

he speaks of it as a reduction, made by reason of his efforts, in the price of the land, rather than as a commission. His account of the matter is given at pp. 2646 and 2647. Mr. Bettes, who was acting for the vendors, the Ontario, Manitoba and Western Land Company, and whose account is given at pp. 3023 to 3029, denies that there were any negotiations whatever for a reduction in the price, and states that the price was always $5 per acre, out of which 25 cents per acre, or $10,000, would be allowed to the vendor's agent by way of commission, and he produces an order by Pritchard to pay Foster or the Union Trust Company the $5,000, Pritchard signing at the same time a receipt, also produced, for the whole $10,000 commission, the other half of which was then paid him by the vendors. Pritchard, whose account is given at pp. 3041-3042, declares that he corresponded with Foster, offering the lands at $5 per acre as agent of the vendors, that he subsequently offered Foster to 'split' his commission 'in two,' that this offer was not the result of any discussion or beating down of the price, and he adds that, of the $5,000 which he himself received as commission, Hon. Mr. Campbell, the Attorney General of Manitoba and the president of the vendor company, stipulated for and received one-fifth, or $1,000. Mr. Campbell's explanation of this will be found at pp. 3136-3140.

Assuming the money to have represented a reduction in price, it seems difficult, in view of the trust upon which the Union Trust Company, to its managing director's knowledge, held these funds, to understand the division of any portion of them among the borrowing syndicate. What the moneys were deposited with him for was to purchase land to add to the security held by the Independent Order of Foresters.

A similar incident took place in the course of carrying out the purchase of the Swan River lands. The vendor there was Hon. Mr. Roblin, Premier of Manitoba. They were vested in a professional gentleman, Mr. Whitla, who was Mr. Roblin's trustee. Pritchard was Mr. Roblin's private secretary, and asked Mr. Roblin for permission to effect a sale of them which was given him. Pritchard brought Mr. Foster and Mr. Whitla together. The price offered by Mr. Foster in his letter to Pritchard of December 23, 1903 (Exhibit 666), was $5.25 per acre,

'with 25 cents per acre as commission, thus netting you $5 per acre.'

In his letter of January 5, 1904, to Mr. Whitla's firm, he reminds them that 25 cents per acre is to be paid as 'commission on sale,' and he says this can be deducted from the cash payment, which was $1.25 per acre or better;

'you can send a cheque therefor signed by the vendors in favour of myself.'

The reply asks him for a cheque for the cash payment, 'less commission as per agreement.' The cash payment was $1.25 per acre on the 9,920 acres, or $12,400. For this Mr. Foster caused two cheques of the Union Trust Company to issue, for $9,920, or $1 per acre, to Mr. Whitla, and for $2,480, or 25 cents per acre to himself. In his letter of February 2, 1904, Mr. Whitla, inclosing the cheque for $9,920, he says he is 'retaining the $2,480 commission.' The witnesses as to the transaction are Mr. Foster, pp. 2647-2648. Mr. Roblin, pp. 3131 *et seq.*, and Mr. Pritchard, pp. 3046-3048. They differ in some respects, but the main features of the transaction are not affected by these differences. The $2,480 received by Mr. Foster was not in this case divided with the other members of the syndicate, but is professed to be held to await the final settlement of their accounts *inter se*. It is not apparently anywhere on deposit, or earmarked in any tangible form, and its diversion to either the private account of Mr. Foster or to the account of the syndicate was, like that of the $5,000, inconsistent with the trust upon which the funds were held.

In an alternative view both these instances may be treated from the standpoint of the duty of Mr. Foster to his employer, the Union Trust Company. His right to make a commission or profit out of the business that company was transacting as trustee cannot stand upon any higher ground than in the case of its beneficial business. These instances may, therefore, well fall within the principles of criticism applied by Mr. Stevenson in his correspondence with the Chancellor (Exhibit 565), to

Mr. Foster's proposal to receive commission on purchases made by the Union Trust Company, to which principles Mr Foster professes to have given his cheerful and immediate adhesion, pp. 2635 and 2636.

Indeed, if Mr. Foster had borne in mind the drastic dealing of the Union Trust Company's board at an early meeting, held on December 7, 1901, in the case of the company's solicitor receiving similar commissions or fees, he would have avoided both of these transactions. He was present at the meeting, and no doubt recorded the minute in which it is remarked,

> 'that it is a very unsafe and unwise practice that anyone employed by them should receive a commission from the opposite side, and the adoption of any such principle is utterly opposed to the universal practice.'

Subsequently, in April, 1904, owing to an objection made by Mr. Stevenson in another matter to the officers of the Trust Company becoming personally interested in matters financed by the company, a halt seems to have been called, and Dr. Montague, the Supreme Chief Ranger, the Supreme Secretary and Mr. Foster agreed to abandon to the company at cost all the lands not embraced in the original transaction regarding the 44,267 acres. Mr. Foster says (page 2652) that he agreed cheerfully to this, but under the impression that his doing so would emphasize the syndicate's title to the 44,267 acres.

In December, 1905, the original purchase was also given up. This was carried out by Dr. Montague (for whom, subject to the Independent Order of Foresters mortgage, the Union Trust Company formally held the lands in trust, though he was himself trustee for the syndicate), releasing to the Union Trust Company, which took over the syndicate rights at cost. That company subsequently disposed of these and other holdings to a syndicate of which Dr. Montague was a member, but to which none of the other members of the original syndicate belonged, at such a price as to satisfy the amount due upon the Independent Order of Foresters mortgage and realize a large profit to the Union Trust Company.

Down to the date of his testimony before the Commission Mr. Foster's attitude towards this surrender would appear to have been hostile. The form the conveyancing took did not necessitate his actual execution of any release, and though his consent seems to have been finally given, after earnest protests, yet it was given, he says, most reluctantly, he not deeming it inconsistent with his relations to the company, and the company's relations to the Independent Order of Foresters, that he should occupy the position which he so unwillingly gave up.

Late in the fall of 1903, Messrs. Rufus H. Pope and George W. Fowler commenced negotiations with the Canadian Pacific Railway Company, for the purchase of a large tract of railway subsidy lands, on behalf of a syndicate including Messrs. W. H. Bennett and A. A. Lefurgey. The result of these negotiations was a verbal arrangement by which they became entitled, upon making a certain deposit, to have an option to select at $3.50 per acre, 200,000 acres, out of a larger area which was then supposed to be approximately 225,000 acres.

The purchase money, $700,000, was to be paid as follows: a deposit of $20,000 in cash, a further sum of $40,000 by May 15, 1903, and, by June 1, 1903, a further sum of $56,666.66, being the balance of the first instalment; the remaining instalments being distributed equally over five further years, with interest. The terms of payment were the ordinary terms upon which the railway company was then disposing of its land.

A map, showing the area out of which the selection might be made, was sent on February 4, 1903, by the land commissioner of the company at Winnipeg to Messrs. Pope and Fowler. There seems, however, to have been some misunderstanding with regard to the cash deposit, and upon time being asked for its payment the land commissioner declined to give such time and notified Messrs. Pope and Fowler that the matter was off, and that he intended to proceed to deal with the land without reference to what had taken place between them.

On April 6, 1903, negotiations were resumed, and it was arranged that, upon the required cash deposit of $20,000 being immediately made, the arrangement should again be set on foot, giving Messrs. Pope and Fowler till May 15 to examine and make the second payment of $40,000, and till June 1 to complete the first payment. Accordingly, on April 24 the cash payment was made, and for the first time the option was put in writing. It scheduled about 217,000 acres, and the right to select 200,000 acres from this larger area was what the option covered.

That the land selected should be average lands only was secured by the Railway Company itself reserving about 25 per cent of the total area in lands of average value, and omitting this reservation from the lands scheduled; and by a stipulation that if any lands whatever were selected in any particular township in the schedule, all lands scheduled in that township must be taken. This agreement is Exhibit 668, and is dated April 24, 1903.

On the following day the Land Commissioner offered Messrs. Pope and Fowler the whole of the excess over 200,000 acres of the land from which under the option they were entitled to select, at the same price, $3.50 per acre, and this offer was accepted by letter of April 30, 1903.

In their efforts to finance the undertaking, Messrs. Pope and Fowler were brought into communication with some of the persons interested in an Ontario corporation known as the New Ontario Farm and Town Site Syndicate, whose incorporation had taken place on March 25, 1903. There were five shareholders in this corporation, each of whom owned one share of its stock, and it was said to have had some options in connection with lands in Ontario which were not supposed to be of any value. In the course of negotiations between the Pope and Fowler syndicate and this company, under circumstances and for reasons which have not been made clear to the Commission, Mr. Foster, the General Manager of the Union Trust Company, and Mr. McGillivray and Mr. Wilson, who were directors of the Union Trust Company, found their services enlisted. It has not been possible to ascertain with certainty the date at which this took place, but, allowing for the time which might naturally be expected to be spent in negotiations, and having regard to the fact that the matter was put in definite concrete form on May 30, it is, perhaps, not unreasonable to suppose that this happened at or about the time when Messrs. Pope and Fowler took the option of April 24. This would allow about a month for the negotiations.

It is stated by Mr. Foster and also by Mr. Wilson that in the earlier stages it was intended to finance the matter without reference to the Union Trust Company, it being expected that one-half of the financing would be taken care of by Messrs. Foster, McGillivray and Wilson, and the other half by the persons composing the New Ontario Farm and Town Sites Syndicate. This, it is said, fell through, however, because the latter found themselves unable to carry their share of the transaction.

That the Union Trust Company was at an early stage of these negotiations intended to have some relation to the transaction, is shown by the circumstances that on May 20, Mr. Fowler was in correspondence with Mr. J. W. Curry, the solicitor for the New Ontario Company, exchanging and revising a draft agreement in which the Union Trust Company was named as the trustee to whom Pope and Fowler were to transfer the option, the beneficiaries of the trust not being disclosed upon the face of the document.

On May 30, 1903, this conveyance was completed (it is part of Exhibit 483). By it Messrs. Pope and Fowler transferred to the Union Trust Company as trustee the right or option to inspect, examine and purchase the lands mentioned in the agreement between Messrs. Pope and Fowler and the Canadian Pacific Railway Company of April 24, 1903, at a price which was to net them a profit of $1 per acre over the $3.50 which they were to pay to the Railway Company. Messrs, Pope and Fowler were not, however, intending to part with the whole 217,000 acres for which they had bargained with the railway company, nor even with the whole 200,000 acres which were spoken of in the agreement. The method of conveyancing adopted was to attach

to the agreement with the Trust Company a copy of the agreement of April 24 with the railway company, and a new schedule, covering approximately 193,000 acres only, omitting altogether the schedule covering 217,000 acres attached to the agreement of April 24. Messrs. Pope and Fowler had selected for retention some 6,500 acres as being contiguous to the anticipated and projected line of railway, and as having, therefore, peculiar advantages, and they were also, at this date, retaining the difference between the sum of those two acreages, 193,000 and 6,500, and the whole 217,000 upon which they had the option. None of the persons with whom they were negotiating seem to have been made aware that either of these reservations had been made.

It seems highly probable that on May 15, when Messrs. Pope and Fowler paid the second instalment, $40,000, of the cash payment and took up the option, matters had so far progressed that they were quite certain the matter would be financed; indeed the agreement recites a payment to Pope and Fowler by the Union Trust Company of $23,520, and provides for the payment by the company of a further sum of $33,146.66 by July 1, 1903, beyond which date they had then arranged with the railway company to extend the time for completing the first instalment. These two sums, together with the $60,000 which Pope and Fowler had already paid and which, by the terms of the agreement, was to be refunded to them, made up the total first instalment of $116,666.66 payable to the railway company.

By this agreement it was further provided that Messrs. Pope and Fowler were to be paid the $1 per acre, approximately $200,000, profit, $50,000 in stock of the New Ontario Farm and Town Sites Syndicate, and the balance as follows: one-sixth or approximately $25,000 on November 1, 1903, and the rest in five instalments of approximately $25,000 each, payable at the dates at which the instalments of purchase money were payable to the railway company. It also stipulates that if the lands are passed on to the New Ontario Company at a further advance of 50 cents per acre, they shall receive a further block of $5,000 paid-up stock in that company.

The avowed intention of Messrs. Foster, McGillivray and Wilson from the beginning was to make the profit last named of 50 cents per acre for themselves, and it is difficult to believe that the beneficiaries undisclosed in the agreement of May 30, for whom the Union Trust Company was made trustee were not intended to be Messrs. Foster, McGillivray and Wilson, subject, of course, to their getting in such rights as the old members of the New Ontario syndicate, who had failed to finance their half of the proposition, might still be entitled to maintain.

Mr. Foster thinks that when this agreement was made, on May 30, 1903, and up to June 4, when certain further conveyancing took place, to which reference will be made in a moment, there had been no idea of the Trust Company being brought in to advance moneys. He is, however, manifestly mistaken with regard to this, because on June 3, he brought, as manager, before the board of the Union Trust Company, the very proposition that that company should loan to the New Ontario Syndicate a sum not to exceed $140,000, for the manifest purpose of enabling the agreement of May 30 to be carried out. The resolution, so far as material, is as follows:—

> 'The manager laid before the directors two propositions for investing in lands in the Northwest which were approved in principle. The first in reference to the New Ontario Farm and Town Sites Syndicate Land Company . . . . . to loan to the New Ontario Farm and Town Sites Syndicate Land Company, Limited, capitalized at $1,000,000, on the security of the lands and assets, a sum of money not to exceed $140,000, at a rate not to exceed 6 per cent per annum. The Union Trust Company is to have the option of taking fully paid-up stock at par for the whole or any part of this advance and interest thereon, and is to receive in addition as a bonus 237½ shares of $100 each, par value, of the paid-up capital stock of the company.'

When, therefore, the conveyancing of June 4 is approached, it is manifest that the Union Trust Company had become bound to finance the proposition. There is no reference in the minute to the personal interest of Messrs. Foster, McGillivray and Wilson.

On June 4, they entered into an agreement to extinguish any title to the Pope and Fowler option that might remain in the members of the New Ontario Syndicate, and for the acquisition of the charter rights and powers of that company. For the first time their names appear upon record. They are recited to be entitled to one-half interest in the Pope and Fowler option, which is recited to have been conveyed to the Union Trust Company by the agreement of May 30. The agreement also recites that some of the other parties to it, who are mainly members of the New Ontario Company, are entitled to the other half interest, and provides that Messrs. Foster, McGillivray and Wilson are thenceforth to be the sole and only persons interested in the option, and that the Union Trust Company, the trustee, shall hold the option for their sole use and benefit; that the charter of the New Ontario Company shall be assigned to or vested in them or put under their control, by having them or their nominees made directors; the five shareholders of the company remaining members to the same amount of stock, $100 each, which they theretofore held. Messrs. Foster, McGillivray and Wilson are to either form a new company or work the old company, and the lands are to be handled at such an advance as to net to them 950 shares, or $95,000 of paid-up stock over and above what the option and lands have cost them, whereupon 100 shares out of the 950 are to be handed over to the other parties to the agreement, being mainly members of the old syndicate, to deal with as they may agree. On the same day they did agree to a distribution of the one hundred shares among themselves.

The change in the ownership of the charter was effected on June 11, at a meeting of the five shareholders of the New Ontario Company, at which an offer made by Mr. Foster, on behalf of himself and Messrs. McGillivray and Wilson, was accepted. That offer is dated June 10, and is to the effect that in consideration of the allotment of 1,000 shares as follows: 10 to Mr. Foster, 10 to Mr. McGillivray, 10 to Mr. Wilson, and 970 to the Union Trust Company in trust for parties interested as may be set out in the schedule to the trust deed, they will transfer the Pope and Fowler option, of which they are now the sole owners, to the New Ontario Syndicate. There is a further stipulation that Messrs. Foster, McGillivray and Wilson, Sir John Boyd, the Hon. Robert Rogers and C. F. Scholfield are to be appointed directors of the company and to get one qualifying share each out of the thirty which are stipulated to be allotted to Messrs. Foster, McGillivray and Wilson. The offer being accepted, the shares were allotted accordingly, the directors resigned and the new directors stipulated for were elected.

On June 22 an agreement was made which was intended to sum up and put upon the intended footing the whole of the stock. Messrs. Foster, McGillivray and Wilson, who are described as 'owners,' are parties of the first part; the Union Trust Company, 'bankers,' parties of the second part; Dr. Oronhyatekha, Sir John Boyd, Hon. Robert Rogers, Mr. Scholfield and Messrs. Foster, McGillivray and Wilson, 'shareholders,' of the third part, and the New Ontario Company of the fourth part. The whole option is assigned to the company, which is to make all payments upon the option and is to allot paid-up shares, in addition to the $50,000 of stock which Messrs. Pope and Fowler were to receive as 25 per cent of their $1 profit per acre as follows:—

			Shares.	Amount.
				£
Total shareholding representing 50 cents profit on 200,000 acres			1,000	100,000
Allotted to Messrs. Pope and Fowler in respect of this profit			50	5,000
Balance belonging to Messrs. Foster, McGillivray and Wilson			950	95,000
Allot to Foster	10	1,000		
" McGillivray	10	1,000		
" Wilson	10	1,000		
Sir John Boyd (qual.)	10	1,000		
Hon. R. Rogers (qual.)	10	1,000		
Mr. Scholfield (qual.)	10	1,000		
			60	6,000
Allot half of 890 to Foster, McGillivray and Wilson			890	89,000
			445	44,500
Allot to Dr. Oronhyatekha	100	10,000	445	44,500
" Union Trust Co. (bonus)	237½	23,750		
" members New Ontario Syndicate and others to extinguish their title	100	10,000		
			437½	43,750
Balance odd shares allotted to Mr. Foster			7½	750

The allotment to Dr. Oronhyatekha of 100 shares is not at all clearly explained, but he deems himself to have been a trustee of it, either for the Foresters or for the Union Trust Company. It will be observed that the 237½ bonus shares given to the Trust Company was 25 per cent of the total holding of Messrs. Foster, McGillivray and Wilson, 950 shares.

In addition to the above stock, which was all in respect of the 50 cents profit, Mr. Foster says that it was understood with regard to Sir John Boyd, Hon. Robert Rogers and Mr. Scholfield, that, while 10 shares each were given as qualifying them, they should also each subscribe for other 40 shares. Mr. Rogers does not seem to have done so, but Sir John Boyd and Mr. Scholfield each applied for and had allotted 40 additional shares. Sir John Boyd states that his 40 shares were paid for in full. Mr. Schofield states that he has paid $2,000 on account of his 40 shares, and that it was understood that he should not be required to pay more. These two sums are the only sums of money which were paid for any of the stock issued by this company, save possibly in their origin the original five shares of the old members.

On the same day, June 22, a meeting of the shareholders of the New Ontario Syndicate was held at which the agreement was confirmed. The directors were increased to nine, Messrs. Pope, Fowler and Lefurgey being added to the board.

At the meeting of the directors of the Union Trust Company, of June 23, 1903, the manager is stated to have reported that arrangements had been completed for the transfer to the Trust Company of the agreed stock, and it is also stated that the manager explained that in pursuance of the resolution of the previous meeting, an agreement of June 22 has been prepared, whereby the Trust Company becomes trustee for and advances money to the New Ontario Syndicate and becomes secretary-treasurer thereof, and that the Trust Company has received 237½ shares and is to have a reasonable rate of interest on advances, with the option to take stock for same. The board authorized the execution of the agreement, and limited the advances, until further resolution, to $140,000. In this minute no reference is made to the interests of Messrs. Foster, McGillivray and Wilson. At the meeting of July 9, however, the general manager reported that Pope and Fowler and the Canadian Pacific Railway were conveying directly to the New Ontario Syndicate instead of circuitously through Messrs. Foster, McGillivray and Wilson. This is the first mention of the names of these gentlemen in the minutes in connection with this transaction.

On the 21st July, the name of the New Ontario Syndicate was changed to the 'Great West Land Company, Limited.' Later in the same month Messrs. Pope and

Fowler gave directions to the railway company to convey certain blocks of land in pursuance of the dealings that had taken place.

An immaterial distinction was made in the conveyancing between 'main line' and 'branch line' subsidy lands. Two blocks, totalling, as then supposed, 193,947.49 acres were accordingly conveyed, being the lands which had been put in the Pope and Fowler schedule, substituted for the C. P. R. schedule when the agreement of May 30 was made. About the same time Messrs. Pope and Fowler authorized the railway company to convey also 8,640 acres, and the conveyance was accordingly made. The arrangement with regard to this is stated to have been the same as with regard to the other lands, Messrs. Pope and Fowler turning them over directly to the company and receiving a profit of $1 per acre, and Messrs. Foster, McGillivray and Wilson receiving a profit of 50 cents per acre. At this date they were the sole members of the executive committee of the Great West Land Company—having been appointed at a directors' meeting of 22nd June, 1903, and the transaction, therefore, presents some peculiarities.

On the 9th July, 1903, Mr. Foster reported to a meeting of the board of the Great Land Company, at which the three members of the Executive and Mr. Scholfield, were present, as follows:—

> 'that he learned that Messrs. Pope and Fowler held about 8,640 acres of land in proximity to the 200,000 acres heretofore bought, and that it is now found that the 200,000 acre block will, upon measurement under the terms of the last agreement between Messrs. Pope and Fowler and this company, fall short several thousand acres and that he thinks he can secure for this company at practically the same price per acre as this company pays for the 200,000 acres, the additional 8,640 acres.'

It was thereupon resolved that Mr. Foster be authorized to purchase the additional lands, paying therefor $5 per acre, $1 per acre in stock, paid up and non-assessable, and the balance in six yearly instalments, &c. The arrangement made between Messrs. Pope and Fowler and Mr. Foster with regard to this, and which was carried out, involved Messrs. Pope and Fowler making their profit of $1 and Messrs. Foster, McGillivray and Wilson theirs, of 50 cents per acre, as in the other case. The minute makes no disclosure whatever of the personal interest of the three members of the executive in the transaction.

The result was that $8,320 of the purchase money was paid in capital stock of the company (83⅓ shares) and the balance in cash. Of the 83⅓ shares of stock, 40 went to Messrs. Pope and Fowler and 43⅓ to Messrs. Foster, McGillivray and Wilson. These were divided, 14 to Foster, 14 to McGillivray, 14 to Wilson and 1⅓ to Foster in trust for himself and the other two. It does not appear that the personal interest of these gentlemen would ever have been disclosed had it not been discovered upon an inspection of the stock book of the Great West Land Company, to the production of which vigorous and prolonged objection was made (page 2621).

It should be borne in mind that in this transaction, as well as in the main transaction, the Union Trust Company was finding all the funds necessary to carry the lands.

Part of the remainder of the subsidy lands, 217,000 acres, originally covered by the final options, between the railway company and Messrs. Pope and Fowler, were turned over to one Bellhouse by the railway company upon the direction of Messrs. Pope and Fowler. The quantity of land embraced in that sale was 7,588·30 acres.

The following is a corrected table of the original 217,000 acres and their disposition:—

	Original Estimate. (Acres.)	Quantity Finally Ascertained. (Acres.)
1. To G. W. Land Co.	44,339·25	44,245·99
2. "	149,598·24	147,427·20
3. "	6,640·00	8,643·00
4. Bellhouse sale	7,588·30	7,588·30
5. Still retained by Messrs. Pope and Fowler unsold	6,533·39	6,533·39
Total	216,699·18	214,437·86

The policy of the Union Trust Company Board with respect to exercising the option to take security for the advance or to take stock at par seems to have been somewhat vacillating. Messrs. Foster, McGillivray and Wilson were still members of the board, and the lands, which it had originally been expected would be sold off within a few months, remained on hand. On January 1, 1904, the Inspection Committee of the Board reported that the total advances up to that date were $146,601.71, of which $1,400 had been converted into capital stock and $145,201.71 remained as a secured loan.

On the 26th March of the same year the Board resolved to exercise the option by taking stock for all the advances to be made under the agreement, and the resolution proceeds 'does hereby take stock for the amount heretofore advanced.' The lands had then been on hand for nearly a year.

On December 16 of the same year the two companies entered into an agreement reciting the resolution of March 26, and the allotment of stock for advances under it from time to time, and went on to provide that the land company should and it did thereby grant to the Trust Company the agreements held under the railway company and under Messrs. Pope and Fowler as purchasers, and the subsequent agreement between the railway company and the Trust Company, and all the lands mentioned therein and all rights thereunder, all rights to unpaid calls on stock and all other assets of the company, as security against all sums heretofore or hereafter advanced under the agreement of June 22, 1903, but that any payments or advances made by the Trust Company for which stock had been or should be thereafter allotted, should not be deemed to be a liability within the meaning of the agreement.

On May 20, 1905, another resolution was passed by the Trust Company board to the effect that the Trust Company should advance to the land company up to $900,000, taking as security 6 per cent bonds of the company, based upon a first mortgage on all its property. The lands were still unsold, and the Trust Company had received nothing in principal, interest or dividends.

Later in the same year Mr. Stevenson, becoming alarmed at the enormous sums of money belonging to the Trust Company then invested in lands in the Northwest, agitated in the Board for an alteration in its policy, and among other things seems to have advocated turning all the advances made to the land company into an interest bearing mortgage. This, of course, involved the abandonment of the capital stock allotted in respect of these advances.

The matter came up for discussion at a meeting held on November 7, at which Messrs. Stevenson, Foster, McGillivray, Wilson, Davidson and Ross appear to have been present, but the matter was laid over to be further discussed at an adjourned meeting.

Minutes of the adjourned meeting are found in the minute book under date November 13, and it is recorded there at this meeting the same directors were present

who were present at the meeting of November 7. The minutes so recorded contain the following :—

> 'After a full discussion in reference to the Great West Land Company, it was decided, on motion by Hon. E. G. Stevenson, seconded by Lieutenant J. A. MacGillivray, that the Union Trust Company should assume the position of mortgagee with reference to its advances and payments to or for the Great West Land Company,'

had the resolution, as recorded, stopped at this point it would, no doubt, have quite embodied the policy then being advocated by Mr. Stevenson, but the resolution proceeds:

> 'instead of the stock received by the company and its president upon formation of the land company, and the stock received as representing payments and advances, the company and its president releasing to its original owners respectively the stock which had been acquired under the former arrangement as set forth in the agreement of June 22, 1903.'

This language is, perhaps, equivocal, but it has been assumed by those interested to be intended to provide for the abandonment to Messrs. Foster, MacGillivray and Wilson of the 237½ shares of bonus stock which was to be the reward to the Trust Company for financing the transaction, irrespective altogether of whether such financing was by way of loan or by way of purchase of capital stock, and of the 100 shares allotted to Dr. Oronhyatekha, who deems himself a trustee of them for the Trust Company or the Foresters. Mr. Stevenson is very reluctant to admit the paternity of this part of the resolution, and it is both remarkable and unfortunate that in the book kept for registering the attendance of directors, no signatures are found under date November 13, nor indeed is that date itself found in the book.

The recorded minutes proceed to instruct the solicitor—who was Mr. Mathew Wilson—to prepare the necessary papers to be executed by the officers of both companies.

The minute book records another meeting of the directors on November 28, 1905, at which Messrs. Foster, MacGillivray and Wilson, together with Directors Ross and Davidson, are recorded as being present. In the minutes of that meeting occurs the following :—

> 'The solicitor of the company, pursuant to the instructions of the Board at its meeting of November 7, read an agreement and mortgage as between the Union Trust Company and the Great West Land Company. After some discussion and amendment it was moved by Hon. G. W. Ross, seconded by Lieut-Col. J. Davidson, that the form of agreement between the Union Trust Company and the Great West Land Company as submitted by the solicitor, pursuant to the resolution passed at the last meeting of the directors, be adopted, and that the proper amount be filled in by the General Manager and the agreement executed and be submitted to the Great West Land Company for execution.
>
> 'It was also resolved that the form of mortgage and assignment from the Great West Land Company to the Union Trust Company, as submitted, be adopted, with the amendments made, and be executed after all blanks be filled in, and that the by-laws for that purpose be passed and that a meeting of the shareholders be forthwith called to consider the agreement and mortgage after the same shall have been adopted and executed by the Great West Land Company.'

The directors' attendance book contains no record of a meeting of this date, nor any signature of directors.

Undoubtedly a mortgage was prepared and executed, and undoubtedly a formal release and abandonment of all the stock representing advances was also prepared and executed. Nor is it at all in doubt that a formal assignment by the company and by the president, Dr. Oronhyatekha, was made to Messrs. Foster, McGillivray and Wilson of the 237½ and 100 shares respectively.

This was done in the absence from the country of both the president and Mr. Stevenson, the transfer of the stock held by the president being effected by means of a general power of attorney which he had left behind him. He professes not to have been aware at all of what was being done, and later addressed a letter to Mr. Matthew Wilson demanding a re-transfer of the 100 shares.

Mr. Stevenson had left on November 13—it is said immediately after the meeting recorded on that date—and was not present, of course, at the recorded meeting at which the direction of that date was carried out.

It is, perhaps, worthy of observation that there is no signature by way of subsequent confirmation to any of the minutes to which reference has been made, in the minute book itself. In the attendance book, between the meetings of November 7 and December 26, both of which are signed for, there is a blank of 25 lines, covering parts of two pages.

The directors who are recorded as being present at these meetings—with the exception of Mr. McGillivray—were all examined. Mr. Stevenson says (pp. 2387-2388):—

> 'In what I said about the other matter' (referring to the giving up of the bonus stock) 'I have no hesitation in saying that while I did not understand the other matter was concluded or considered at all, I have no hesitation in saying the other gentlemen thought it was or that minute would not appear in that way. But I did not understand it in that way.....I had not in mind the giving of it up, although I did not attach much importance to it.'

(Pages 2388-2389):—

> 'Q. Was there at that meeting in connection with the resolution, which you are said to have moved, any discussion, any mention, to your recollection, of this bonus stock being given up?—A. My recollection is that there was not. I simply say that because when the matter came to my notice that it had been done, it was a surprise. I may say that I talked the matter over with Mr. Wilson since that time, quite recently, and Wilson thought I was a party to this agreement, and that I had approved of the agreement itself, and was very firm that the matter was within my knowledge. All I can say is that I did not understand it so..... As it seemed to me, we were to have the stock, whether we took the position of mortgagees or the holders of stock.....I have given my recollection. That cannot be changed.'

(Page 3106, after the other directors had been examined):—

> 'I have read very carefully all that has been said on that subject with a view of refreshing my recollection. I have recalled the circumstances of that day and I can only say that after going all over it I am confirmed in the view that I originally had, that I never understood that any stock was being turned over for the mortgage or on account of that transaction except the stock representing the cash advances, and that the bonus stock was never included or considered or thought of. My recollection in that respect is just in accord with Colonel Davidson's and Mr. Ross'.
>
> Q. Would you say as to the possibility of any such resolution being made by you formally or informally at any meeting?—A. It is absolutely impossible. If I had written any such resolution as is said I certainly would have recalled it, because I would have had the matter in mind.
>
> Q. And you say that no such resolution was prepared by you?—A. I say that no such resolution was prepared or offered by me.'

Colonel Davidson says, at page 2602:—

> 'My recollection is the bonus stock was never discussed. I may be entirely wrong.
>
> Q. You have no recollection of its being discussed?—A. No.
>
> Q. Don't you think you would recall it, if such an important thing as that were discussed?—A. I would think so, but the idea of its not belonging to the Trust Company has never entered my head.'

The Hon. G. W. Ross says, at page 2615:—

'I do remember that we did discuss, as I said a moment ago, the question of unloading ourselves on these lands.

'Q. Do you remember at any time or at any meeting any discussion with regard to giving up the bonus stock which the Union Trust Company held, not for its advances, but as consideration for having made advances.—A. I do not remember anything about the surrender of the stock.

Q. Do you think you would have remembered if such a discussion had taken place?—A. I think I ought to.

Q. You think you would?—A. I think I would.....'

Q. (Reading from recorded minutes of November 28) The solicitor of the company, pursuant to the instructions of the board at its meeting of November 7, read the agreement and mortgage between the Union Trust Company and the Great West Land Company. After some discussion it was moved by the Hon. G. W. Ross, seconded by Colonel Davidson, that the form of agreement (reads resolution) And that the proper amount be filled in by the general manager. Do you remember that agreement being placed before the board and discussed?—A. I do not remember it.

Q. Do you remember moving such a resolution ?—A. I do not.

Q. Do you think that you would have forgotten if so important a matter as that was discussed at a meeting so recent as November 28 ?—A. Is that the agreement in which the surrender of stock was provided for ?

Q. Yes.—A. Yes, I think I would remember it.'

Mr. Foster's account is given at pp. 2578-2584. It is very difficult to paraphrase or condense his account of the transaction. He thinks the abandonment of the bonus stock on the part of the Union Trust Company was improvident and apparently thinks that he opposed it and that it was only abandoned in deference to Mr. Stevenson's persistence, although he says at page 2580:—

'Q. Did he mention specifically any stock at all ?—A. He mentioned stock specifically.

Q. Did he distinguish in what he said between the two kinds of stock ?—A. I don't know whether he distinguished between the two kinds of stock or whether he simply referred to stock generally. I would not say that he did refer to it in any other way than to say it was stock.'

Mr. Wilson's account will be found between pp. 2719 and 2728. He also thinks that Mr. Stevenson was insisting upon giving up the bonus stock, including the 100 shares held by Dr. Oronhyatekha. He also thinks that he himself was opposed on behalf of the Union Trust Company to the bonus stock being given up. He says, however, that in the course of his discussion of the matter he took the position that it was inadvisable, in the interests of the Union Trust Company, to make the proposed change. Page 2721:—

'Q. You were advocating the policy of not converting your advances into a mortgage ?—A. Yes, in that case.

Q. That is what you were saying to Colonel Davidson ?—A. Yes.

Q. Did you say to Colonel Davidson, 'Of course if we do that we are going to take away that compensation stock' ?—A. I do not recollect saying that to Colonel Davidson.

Q. And if you did not say it to him, you heard nobody else say it, and you heard no discussion about it, either then or at any time ?—A. Oh, well, I won't say that.....

Q. You have no recollection of yourself or anybody else saying more about the desirability of maintaining the *status quo* than you told me you said ?—A. At those meetings I had not.'

It also appears that Mr. Wilson had been advising Mr. Scholfield, of the Great West Land Company, that there was no right in the Union Trust Company, after having once elected to take stock for advances, to re-elect to take a mortgage and insist upon retaining the bonus stock.

The 337½ shares were divided with practical equality between Messrs. Foster, McGillivray and Wilson.

None of the three gentlemen concerned seem to have seen any impropriety in taking part in the discussion at the Board of the Union Trust Company of a question in which their interests were so vitally opposed to those of the Trust Company.

It is impossible to lose sight of the further circumstances that in the inception of the transaction, whatever the intention of the gentlemen may have been, their co-directors Mr. Stevenson, Sir John Boyd and Colonel Davidson, were left under the impression that they were putting up their own funds and were not made aware of the fact, as to which the minutes are entirely silent from beginning to end, that they were making a personal profit. Mr. Stevenson, page 2379, Sir John Boyd, pp. 2435 and 2436, Colonel Davidson, page 2600. The lack of proper vigilance on the part of other members of the board, though explainable by their confidence in their co-directors, ought not to escape observation.

In 1903, Mr. George W. Fowler, on behalf of himself, Mr. William Irwin and Mr. George McCormick brought to the notice of the Union Trust Company a proposition for the joint acquisition of certain timber limits and mill property in British Columbia. The proposal took the shape that the property should be jointly purchased and turned over to a company to be formed, of whose stock the Trust Company should have 51 per cent and Messrs. Fowler, Irwin and McCormick 49 per cent, the parties contributing in those proportions to the ultimate financing of the transaction, but the Trust Company meantime advancing all the money required.

Irwin and McCormick, who were supposed to have the necessary practical knowledge and experience, were to examine and report upon the property, while Fowler was to undertake the business of negotiating for its purchase. Fowler in his testimony asserts very strongly that he was the out-and-out owner of an option upon the property before he approached the Trust Company, and that he approached the company as proposing vendor, and at arm's length, pp. 2779-2788, and pp. 3090-3093. On the other hand Mr. Foster (page 2535) and Mr. Stevenson (page 2403) speak of Mr. Fowler as having entered upon the negotiations for the purchase of the property in question for all those who were expected to be interested.

The facts that seem to be clearly established upon the documentary and other uncontradicted evidence may be stated as follows:—

(1) Prior to 24th October, 1903, Mr. McCormick had refused to deal as purchaser for a property which included all the timber limits and other property included in this transaction, and also three smaller limits, alleging that, for the whole, $250,000 was an excessive price.

(2) Fowler was introduced as a prospective purchaser by Mr. McCormick.

(3) On 24th October, 1903, Mr. Peter Ryan, who was negotiating the sale, gave Fowler an option at $200,000 on the whole property, except 28 acres of berth No. 233, including the three smaller limits, (Exhibit 509). The omission of the 28 acres was probably a clerical error.

(4) On the same day Ryan gave Fowler an option at $250,000 on the whole property, including the 28 acres of berth No. 233 and the three smaller limits. (Exhibit 502).

(5) An option, bearing date the same day, from Fowler to one James Harper, of Boston, at $250,000 is produced, covering the same property and with the same omission as that set out in paragraph 3. (Exhibit 511).

(6) Before the 19th December, 1903, a proposal seems to have been made by Fowler to Mr. Foster, the managing director of the Union Trust Company, the

nature of which is indicated by the minute of the board of that date, as follows: (Exhibit 493).

> 'A proposition was laid before the directors by the manager in reference to providing money for the purchase and working of certain timber berths in British Columbia as described in a memorandum of agreement entered into between Peter Ryan of Toronto and George W. Fowler of Sussex, N.B., giving an option to the latter by the former, and the manager was instructed to continue the negotiations and secure the reports of the examiners now upon the property, on the understanding that if the reports are satisfactory the Trust Company will advance the money required to purchase the property and take a controlling interest therein.'

(7) The option referred to in the minute is the option mentioned in (4) and the 'examiners' then upon the property were McCormick and Irwin, who were sent out and their expenses paid by the Trust Company (page 3099).

(8) On 5th January, 1904, the examiners reported favourably to Mr. Foster (Exhibit 677). This report covered the 28 acres, and also referred to the three smaller limits.

(9) On 26th January, 1904, Mr. Fowler again saw Mr. Ryan, and negotiations were resumed, the object being to close with Ryan upon a basis which would be satisfactory to the Union Trust Company, which was then expected to finance the transaction. The negotiations shifted from the terms of the option spoken of in (4), and the three smaller limits were eventually eliminated, the ostensible price of $250,000 fixed by the option mentioned in (4) being accordingly reduced to an ostensible price of $225,000, while the real price of $200,000 fixed by the option mentioned in (3) was reduced to the real price of $170,000.

(10) Two agreements were then prepared and executed, both dated 26th January, 1904, one of which was to be operative between Ryan and Fowler, selling him the property, less the three smaller limits, but embracing the 28 acres, for $170,000 (Exhibit 510), while the other, which was intended to be put forward to the Union Trust Company as the real bargain, professed to sell him the same property for $225,000 (Exhibit 945).

(11) Mr. Fowler does not pretend that he ever disclosed to the Trust Company either the real option on the larger property at $200,000, nor the real bargain on the smaller property at $170,000. In the early negotiations the fictitious option at $250,000 was alone put forward, and in the later negotiations the fictitious agreement of sale at $225,000 was alone put forward.

(12) In elaborate reports (Exhibit 678), made to Mr. Fowler by McCormick and Irwin, parts of which purport to bear date February 1, 1904, and other parts February 4, 1904, the timber limits and the mill and other property were fully discussed. They do not appear to have made any further report to the Union Trust Company or to Mr. Foster. It is, perhaps, significant, that while the report of January 5, 1904, to Mr. Foster merely refers to their having sent men to examine the Albert canyon limits, being the three limits which were cut out of the completed transaction between Ryan and Fowler bearing date January 26, the report of February 1, to Mr. Fowler condemns these limits, advises their being discarded, and suggests that the price should therefore be discounted by $20,000. It is difficult to resist the conclusion that Mr. Fowler was in possession of this information when he closed with Ryan.

(13) On February 8, 1904, the dealing with the Union Trust Company was reduced into conveyancing. The main agreement of that date, by which Fowler conveys the property to Foster in trust, and which declares the trust to be, to the extent of forty-nine per cent for Fowler, Irwin and McCormick, and to the extent of 51 per cent for the Trust Company, recites most carefully that Fowler, Irwin and McCormick contemplate purchasing and desire to negotiate for the property, and have applied to the Trust Company to join them in the purchase; that in pursuance thereof

the agreement of January 26, with Ryan was entered into by Fowler; and that it is now necessary to procure and pay to Ryan his purchase money accordingly.

(14) Following this, $225,000 was paid to Ryan by the Trust Company. By the real arrangement between him and Fowler he was only entitled to retain $170,000, and he paid over the remaining $55,000, or the greater part of it, to Fowler.

(15) Out of these moneys Fowler paid Foster at least $2,500, and probably about $7.000. He paid McCormick $1,000, and Irwin, $12,000. Mr. Foster's evidence, pp. 2536-2537; Mr. Fowler's evidence, pp. 3102, 3103, 3104; Schurman's evidence, pp. 2526-2527; (Exhibit 545).

Mr. Fowler became entitled to 650 shares in the capital stock of the Kamloops Lumber Company, which was formed to take over the properties purchased from Ryan. Mr. Foster had some verbal arrangement with him, by which he (Foster) was to be beneficially entitled to 300 of these shares, indemnifying Fowler against his obligation to pay for them to the Union Trust Company, which had advanced all the moneys. This was reduced to writing in June, 1905 (Exhibit 547).

It seems unfortunate that this dealing by the managing director was not disclosed to his company till after this inquiry commenced, page 2597.

While the organization of the Kamloops Lumber Company was proceeding, another property in which Irwin, McCormick and Fowler were interested was offered to complete the equipment of the new company. This was the Okanagan Lumber Company's property at Enderby, B.C., consisting of mill, limits, plant, book accounts, &c.

This company had been incorporated in August, 1903, and had a capital stock of $50,000. There were originally five shareholders, of whom McCormick was one, each holding $10,000 of stock. Mr. Irwin subsequently bought from Mr. Bull, who was one of the original shareholders, half his holding, for $5,000.

The Okanagan Company had purchased for $40,000 the whole property and equipment which it was proposed to pass on to the Kamloops Lumber Company for $175.-000, besides an additional price for the manufactured logs on hand, for which the Kamloops Lumber Company ultimately paid an additional $42,000.

At the end of 1903 the directors of the Okanagan Company had submitted to the shareholders a statement of assets and liabilities (Exhibit 540). The total assets were placed at $65,544.66, stock liability at $50,000, and other debts at $11,026.81, leaving profit and loss account at $2,517.85.

Mr. Fowler says that Irwin urged the purchase of this property upon the Union Trust Company, as part of the Kamloops undertaking, threatening to withdraw from the latter altogether and to purchase and operate the Enderby property himself. This is corroborated by Mr. Stevenson, who says that they rather felt they were coerced by Mr. Irwin's course against their own inclinations. Mr. Fowler says that the interest of McCormick and Irwin in the subject of the purchase was known. Mr. Foster says he knew nothing whatever about the organization of the Okanagan Company, its shares, or who held them. Mr. Fowler says that Irwin and McCormick had nothing to do with the examination of the property, and that an independent examiner, a Mr. Hamilton, was sent. Mr. Stevenson says they were relying upon Irwin's experience and responsibility. Mr. Foster says it was Irwin and Hamilton who were specially sent. Mr. Fowler says that he had nothing to do with the negotiations which resulted in the option given to him on May 23, 1904, but was sent to Enderby after the matter had been completely arranged, for the formal purpose of taking an option upon the arranged terms. Mr. Stevenson says Mr. Fowler represented, as he understood it, 'our company,' and his associates Irwin and McCormick in the negotiations for that property. Mr. Foster's recollection is not clear, but he thinks Mr. Fowler brought an option from the Okanagan Company which the Kamloops Company, after investigation, accepted. This is clear, that the option of May 23, 1904, was given to Fowler, and that on the same date he was given two powers of attorney by the Okanagan Company, authorizing him to receive all purchase moneys under—

'a certain sale of our property made or to be made by us to the Kamloops Lumber Company through the said George W. Fowler.'

It is also clear that the whole purchase money, $175,000 for the property and $42,000 for the logs, was duly paid to Mr. Fowler by the Kamloops Lumber Company or the Union Trust Company. It is also clear that Irwin, McCormick and Fowler represented to Mr. Bull, who had $5,000 of stock on which he had paid $1,000 in cash, the remaining $4,000 being represented by his promissory note, that the property had been sold at such a figure as would give each shareholder two for one, and they settled with him on that basis, paying him $6,000 and cancelling his note for $4,000. The balance of the $217,000 after paying the liabilities, was divided among Hale, McCormick, Irwin and Beattie, they being, so far as the Commission was able to ascertain, the then remaining shareholders of the Okanagan Company, and Mr. Fowler, but in what proportions the Commission has not discovered. Fowler claims to have advanced the company $22,000, and says that to some extent, probably $15,000, this advance was treated as entitling him to the position of shareholder in the division of profits. He does not pretend to have made any disclosures upon any of these matters to those of his associates in the enterprise who represented the Union Trust Company interests.

Another accretion to the equipment of the Kamloops Company was the Shuswap Shingle and Lumber Company. One Shields controlled the sale of this property. Messrs. Fowler, Irwin and McCormick negotiated with him, and in pursuance of their negotiations the Shuswap Company on 27th May, 1904, gave an option to Mr. Foster, as trustee, at $40,000. Mr. Fowler says that after he and his associates had examined the property and agreed to recommend its purchase, he was informed by Mr. Peter Ryan that he, Ryan, was entitled to a commission of $5,000 on the sale from Shields, and that he was offered by Ryan one-half of this commission. Ryan gave Fowler an order or orders accordingly on Shields. Fowler says that Ryan had not then paid him the whole of the $55,000 which he was to receive out of the original Kamloops purchase money, and that the order or orders given by him included a sum of money in addition to the half commission, which additional sum was to be applied on the balance due by Ryan. He says the whole amount received by him from Shields on the order or orders was, he thinks, $4,000, and that he is quite willing to credit Ryan on his debt with the whole sum. He did not disclose to those of his associates who represented the Union Trust Company any of these circumstances. His account is given at pp. 3079-3083 of the evidence.

The interests of the Kamloops Company passed through various phases. Irwin did not remain interested, but dropped out when the initial arrangements were about being reduced to writing. Another subsidiary company was formed and took its place in the Kamloops group. At another stage Fowler and McCormick surrendered their stockholding altogether, and finally the Trust Company sold out their whole investment, fortunately at a profit. This was brought about by the efforts of Mr. Stevenson, who, in 1905, took the position that the operation and conduct of business enterprises of the kind were foreign to a proper investment of trust funds. His report upon these properties to the Union Trust board of November 10, 1905 (Exhibit 508), is an able review of the situation at that date and the policy outlined in it has been followed out not only with wisdom, but with extreme good fortune.

On April 9, 1906, the executive of the Foresters passed a resolution to part with the whole of or a controlling interest in the stock of the Union Trust Company. Mr. Stevenson speaks of three factors which entered into that policy:—(1) The responsibility and risk involved in the Trust Company's investments, which belonged substantially to the Foresters, had become too great. (2) There were rumours afloat of profits 'upon the side.' (3) The property of subsidiary companies had become an acute question, and the New Hampshire superintendent of insurance was making a point of this feature in considering whether to grant the Foresters authority to do business in that state.

In furtherance of this policy Mr. Matthew Wilson, K.C., the general solicitor and a director of the Union Trust Company, was employed by the I.O.F. to effect a sale of such controlling interest. In the course of his negotiations he came into relations with Mr. E. E. A. DuVernet, who thinks that at this time Mr. Wilson produced an option to himself to purchase $1,500,000 of stock at 110. Mr. Stevenson says the name in the option was not filled in until after the arrangement with Mr. DuVernet was in progress, and that Mr. Wilson first suggested filling in the name of Mr. DuVernet himself. Mr. DuVernet says he agreed to take up the option at 110, in addition paying Mr. Wilson, whom he says he believed to be the independent owner of the option, $5,000 in cash and 200 shares of the stock.

Mr. DuVernet says he arranged with Messrs. Edward Gurney and Charles Magee, the former being president and the latter vice-president of the Crown Bank, that they should take over one-third of the option, or $500,000 stock, arranging for the financing of that portion. He says that Mr. Wilson desired to make a stipulation with him for an option back at 110 on one-half of $500,000 of the stock, or $250,000. This Mr. DuVernet says he at first declined, but finally, upon pressure, agreed to do, upon the terms of Mr. Wilson 'bringing back' half of the $5,000 cash commission and half of the $20,000 stock commission. Mr. Wilson was to deposit the $2,500 with him to be forfeited if he failed to take up the option. He says that on this occasion he drew his own cheque for the $5,000 commission, payable to Mr. Wilson's order, and that when the $2,500 forfeit was agreed to Mr. Wilson endorsed the $5,000 cheque over to him and received the cheque of Mr. DuVernet's firm for $2,500. He says he thinks the option to Wilson was in writing, and that Mr. Wilson subsequently forfeited by letter his right to take up the $250,000 option. Neither the option to Mr. Wilson nor his letter forfeiting same has been produced.

Mr. Wilson's account of the matter is that his 'interest' is one-half of $500,000 of the stock, that he is 'with Mr. DuVernet' in the purchase to that extent. He says he told Mr. Stevenson that he had been 'invited' to become one of the purchasers. He also states that Mr. DuVernet wished him to become manager at $10,000 per year, or president or vice-president at $5,000 per year, which he would implement to the extent of $2,500 out of his own pocket. He says a cheque payable to his order for $5,000 was put before him by Mr. DuVernet and he was asked to endorse it and did so, but he does not know whose cheque it was or what was its purpose, save that it was part of the transaction by means of which Mr. DuVernet was interesting Mr. Gurney and Mr. Magee; that he made no inquiry whatever, and does not know why the cheque was payable to him. He is not sure, but he thinks the $2,500, which he admits he received from Mr. DuVernet, was paid to him on a subsequent occasion. He did not report the arrangement for the $2,500 to Mr. Stevenson.

With regard to the compensation to be paid him in stock, he says the arrangement with Mr. DuVernet was that if his (Wilson's $250,000 of stock were sold, he would accept $25,000 as his profit upon it. He thinks it was not $20,000, but $25,000. He says there never was any agreement in writing, and he never wrote any letter.

He says he would not sell for less than the $25,000 profit, but would rather not sell at all.

Mr. DuVernet absolutely denies that there ever was any intention to make any profit whatever out of the stock.

These are, in brief, the accounts given by the immediate parties to this transaction. They are, under the circumstances, and having regard to the recent date of the transaction, remarkably contradictory. If it could be supposed that Mr. Wilson, agent for the vendor, stipulated for a secret commission in cash and stock from a vendee who was acting for himself and others, and that the latter made a cross stipulation that the commission in cash and in stock should be secretly halved with him, all the admitted facts would harmonize themselves with a theory which would be at least intelligible.

The written agreement which emerged from these negotiations is dated 3rd May, 1906. By it the Foresters sell to Mr. DuVernet 15,000 shares of Union Trust stock

for $1,650,000. The Trust Company assents. Mr. DuVernet pays $500,000 cash. The balance of the purchase money is payable in five years with interest yearly at 5 per cent. 250 shares are immediately delivered, the remaining 14,750 shares remain with the Foresters as security, but may be released by payments in multiples of 110. Meantime Mr. DuVernet receives all dividends, but the Foresters retain the voting power. The relations theretofore existing between the Foresters and the Trust Company with regard to investments by the latter of the former's funds are revised and continued for ten years, subject to six months' notice.

If the purpose of the resolution of 9th April, 1906, was to part with control of the Trust Company, this agreement does not adapt itself with expedition to the purpose.

THE CATHOLIC MUTUAL BENEFIT ASSOCIATION OF CANADA.

This society was first incorporated on 18th January, 1890, under the General Ontario Act. It was then under the jurisdiction of a parent society in the United States, but in 1892 it declared its independence, and became a distinct Canadian society. In 1893 it obtained an Act of incorporation from Parliament (56 Vic., cap. 90). That Act declared its object to be fraternal union, the improvement of the social, moral and intellectual condition of its members, and their education in integrity, sobriety and frugality, and the establishment, management and disbursement of a mutual benefit and a reserve fund, from which a sum not exceeding $2,000 might be paid to the widows, orphans, dependents or other beneficiaries designated by, or the legal representatives of deceased members. By the statute the head office was fixed at London, but in January, 1903, it was removed to Kingston. By the Act the usual powers in respect of organization and government were conferred, the society's powers of investment were defined and annuities and endowments were prohibited.

The by-laws which constitute the law of the society, so far as material for the present purpose, fix certain rates of assessment and create with the proceeds thereof a beneficiary fund. They provide that each member is to pay in each year after 1st January, 1905, an amount equal to twenty full assessments, divided into twelve monthly payments and that members must pay any further assessments not exceeding four in any one year, that it may be necessary to levy. The beneficiary fund resulting from these assessments is the primary source for the payment of death claims.

Provision is also made by the by-laws for the creation of a reserve fund. A gross 5 per cent of every assesment levied is to be transferred for that purpose from the beneficiary fund account to the reserve fund account. The group of by-laws dealing with this fund is ill-drawn and the meaning in some respects quite obscure. When the reserve fund exceeds the amount of the whole assesment, the excess may be invested. The amount of one whole assessment appears to be intended to be kept at hand in cash to supplement the beneficiary fund, if that fund should be found insufficient to pay death claims. To that purpose it is permitted to be applied, but it is required to be replaced 'as soon as the assessment or assessments issued for payment of such claim have been received.'

Save for the purpoes of this emergency, the reserve fund is required to remain intact, and to go on accumulating, but not more than twenty-four assessments in any one year are to be levied. If twenty-four assessments have been made, the reserve fund may be resorted to for making good any deficiency in the beneficiary fund, in lieu of such further assesment; provided that the total minimum amount of the reserve fund shall be $10,000, the excess over that sum being alone available for the purposes stated. It is also provided that when the fund reaches $250,000, although the assessments in any one year have not exceeded said number (24?), then so much of the reserve fund as exceeds $250,000 and the interest upon the whole fund, or so much as may be necessary, must be applied to the payment of beneficiaries, in lieu of

an assessment upon the surviving members. It seems probable that this last provision was intended to make any surplus reserve above $250,000 available in case of the assessments, and that the word 'exceeded' was intended to be 'reached.' If not, it is extremely difficult to understand the provision.

The by-laws require an initiation fee of fifty cents to be collected by the Branch Council and remitted to the Grand Council, as well as a per capita tax on each member of $1.20 to be remitted quarterly. The fund arising from these resources is available for expenses.

What is spoken of as a sick fund was very recently established, but it may be disregarded for the purposes of this report being, as was said, still in its infancy.

From the time of its incorporation the assessments for which the by-laws of the society provide and which have been constant in amount, have necessarily been more frequent than monthly. Until the change in 1904, about to be noticed, there was no spreading the extra levy over the year in monthly instalments. Sometimes as many as fifteen, sometimes as many as eighteen or nineteen single assessments were levied during the year. This was productive of much inconvenience to the members. Many and serious were the discussions of the vital question whether adequate rates were being exacted. The Grand Council saw other fraternal bodies 'having trouble' with their rates. Some were raising them. Others were decaying. 'Committee after committee' was appointed to consider the situation. They could not agree. The fundamental paradox which characterizes the question was too much for them. They were apparently prosperous, always had money to pay the claims made upon them, but the more thoughtful among them saw dimly that a time might come when, with an aging membership and a growing death rate even twenty-four assessments instead of twelve would quite fail to make good their insurance liabilities.

At length an actuary was invited to give his advice. The gentleman selected was Mr. Abbé Landis. He made a careful examination and valuation of the society's policies. His report, which was published in the official organ of the society, points out the abnormally low lapse rate prevailing in the society and the consequent persistence of its insurance contracts, thus anticipating the argument sometimes deduced from the alleged large profits on lapses in fraternal societies. He demonstrates with much clearness that the younger members, at prevailing rates, are contributing to the cost of carrying the older members' insurance, instead of accumulating a fund by means of which their own may be carried as their ages advance and the cost increases. He shows the fallacy as well as the inequity which characterizes any method of insurance by which each policy is not made to provide for its own cost. He proves that, as time goes on, the proportion of new members to old must enormously and impossibly increase in order that the assessments of the former may continue to defray the expense of carrying the insurance of the latter.

He computes a reserve of $6,217,248 on the basis of twelve assessments per annum, a reserve of $4,711,010 on the basis of eighteen assessments, a reserve of $3,204,773 on the basis of twenty-four assessments, and shows that by making thirty-six assessments annually, as a level contribution for all future time, the reserve required would be reduced to $192,208 against which stood the accumulated funds of the society, then $157,563, leaving a deficiency of $34,375 to be provided for.

But he recognizes the impossibility of levying thirty-six assessments per annum if the society's existence is to continue, and he submits two alternative tables of level monthly rates, one for whole life insurance and the other for term insurance to age 65, giving readings of both tables at alternative rates of 3½ and 4 per cent, and using the National Fraternal Congress table, which he finds to accord very closely with the actual mortality experience of the society.

This report was presented to the Grand Council at the 1904 convention. The council referred it to a special committee, which reported that the existing rates were not sufficient to secure the stability of the society, and that the committee had not enough information to make a formal recommendation for readjustment of rates,

and advised the convention to empower the executive to make the re-adjustment. This report was presented to the convention, which then proceeded to pass the 20-assessment by-law now in force.

It may well be supposed that a majority of the older members of the society would oppose the adoption of the plan proposed by Mr. Landis. The keystone of his proposition was that they should bear the cost of carrying their own insurance, instead of resorting to the surplus funds which younger members were providing to carry their own when its cost should exceed the level contribution.

The following table compares the society's present rates with the Hunter and National Fraternal Congress rates:—

Age.	Rate per $1,000.	Hunter.	N. F. C.
18		9.86	
19		10.20	
20		10.55	
21	10.20	10.91	10.62
22		11.28	10.92
23		11.66	11.24
24		12.03	11.57
25		12.42	11.92
26		12.76	12.28
27		13.22	12.67
28	11.40	13.49	13.08
29		13.87	13.51
30		14.31	13.96
31		14.76	14.43
32		15.22	14.94
33	12.00	15.73	15.47
34		16.25	16.03
35		16.82	16.62
36		17.42	17.24
37		18.05	17.90
38	13.20	18.71	18.60
39		19.42	19.34
40		20.18	20.11
41		20.97	20.93
42		21.81	21.80
43	15.00	22.70	22.72
44		23.65	23.69
45		24.66	24.72
46		25.72	25.81
47		27.31	26.91
48	17.40	28.10	28.20
49		29.36	29.51
50		.....	.....

The reserve fund, consisting of 5 per cent taken from all assessments, is intact, and now amounts to about $208,000.

The beneficiary fund, however, has been freely treated as a fund from which borrowings for expenses might be made. At the time of the inquiry the general or expense fund was thus indebted to the beneficiary fund to the extent of about $11,000, which was expended in holding the convention in 1904.

The premium income of the society for 1905 was $336,601.05. Its membership at the end of that year was 19,750, and the insurance in force, $26,393,500.

The society has never made any investments, all the funds in hand being deposited at interest in different banks.

SESSIONAL PAPER No. 123a

THE CANADIAN ORDER OF THE WOODMEN OF THE WORLD.

This society was incorporated in 1893 by Act of Parliament, 56 Vic., cap. 92, its objects being:—

(*a*) To unite its members in social and fraternal bonds;
(*b*) To collect and distribute charitable donations;
(*c*) To make with its own members contracts for insurance in sums not exceeding $3,000, payable on the death of the insured;
(*d*) To erect a monument over the grave of each deceased member.

Its head office was fixed at London, and provision was made for its government by a representative body to be known as the Head Camp, to be elected annually or biennially as might be determined by by-law.

The Act directed the accumulation of an emergency fund not less than the proceeds of one mortuary assessment upon all the membership, and authorized the raising of a reserve fund or guarantee, by subscription, to an amount not exceeding $100,000.

By-laws were passed, the earlier forms of which may be disregarded for the present purpose. In their present form they provide for the organization and government of subordinate camps, the delegation of representatives thereof to the head camp, bestow names upon the officers, arrange for their election, prescribe their duties and create them an executive council, having (except while the head camp is in session) all the absolute, original and appellate and final jurisdiction of the head camp.

The by-laws further establish certain funds and accounts, impose fees, taxes and assessments and fix monthly premium rates.

In 1902 the society agitated for the establishment of sick and funeral benefits. Application was made to the Ontario Inspector of Insurance for permission to form a department of the society for that purpose, but the request was denied. An amendment by Parliament to the original Act of incorporation was talked of, but was discouraged by the Superintendent, who stated that if asked to report upon such an application he would report adversely. It seems probable that his reason was the disinclination of the society to come under any compulsory requirement as to maintaining reserves. Parliament had originally authorized, but had not required a reserve in respect of the mortuary business of the society, and the establishment of another branch of business without providing for adequate reserves did not recommend itself to the Superintendent.

In 1903 Parliament was applied to, and the Act of incorporatien was amended by adding to the four original objects of the society a fifth, viz.: To establish, maintain and administer a fund for the payment of sick and funeral benefits. Parliament, however, required that the sick and funeral fund should never be less than the legal reserve, calculated as to funeral benefits on the basis prescribed in the Insurance Act, and based as to sick benefits upon such Standard Sickness Tables as the society used in the construction of its rates, and a rate of 3½ per cent .

The sick and funeral premiums were required to be payable monthly, sick benefit was limited to $260, funeral benefit to $100, the new branch was to be kept separate in every respect from the rest of the society's business and the use of any other funds of the society for sick and funeral purposes was absolutely forbidden.

The present deposit of moneys with the Treasury Board was excused, but the right was reserved to demand a deposit of $10,000 so soon as the required amount should be available.

The funds established by the by-laws are:—

(1) The emergency fund;
(2) The insurance fund;
(3) The monument account or fund;
(4) The expense fund;
(5) The investigation fund;
(6) The sick and funeral fund.

The reserve or guarantee fund authorized by the Act of incorporation was never established, except in so far as the insurance fund serves the same purpose.

The emergency fund was provided for by requiring every applicant on joining to pay one assessment at the premium rates paid. This fund was not to be resorted to except for payment of mortuary claims, and then only when the insurance fund should be exhausted.

All subsequent assessments were to go into the insurance fund. This was not to be depleted except for death claims, payments to the monument account and the restoration of borrowings from the emergency fund.

The monument fund consisted of sums transferred from the insurance fund. At the death of each member $100 was so transferred, the policy providing not only for the payment of the amount insured but also for the placing over the grave of the deceased member of a monument 'of the value of not less than $100.' The by-laws say 'at a cost not exceeding $100.' The monument fund was applied in or towards the erection of monuments, but sometimes monuments were not desired by the beneficiaries, or they were content with the expenditure of less than $100. In these cases the by-laws directed the transfer of the saving to the expense fund for the extension of the Order. In this way the sum of $6,076.25 found its way from the insurance or mortuary fund into the expense fund.

The principal normal sources of the expense fund were certain per capita taxes, certificate fees and profits on sales of supplies to subordinate camps. What may be called its abnormal sources are the monument account, already mentioned, and the sick and funeral fund, from which $2,114.19 was transferred, $1,114.19 being said to represent the cost of the legislation obtained in 1903, and $1,000 being estimated for cost of management for two years.

The investigation fund was created by setting apart 1 per cent of all the assessments received. Its declared purpose was to protect the insurance fund against improper claims, by the defence of suits and investigating the conduct of members and others. There has been taken from the insurance fund and put into this fund, under this authority, $3,466.10, besides $56.84 transferred from the emergency fund, apparently without any authority whatever.

The sick and funeral benefit fund is or should be the reserves in respect of those benefits, computed upon the basis prescribed in the Act of 1903.

This branch of the business was by the act required to be kept separate from the society's other business; and it was, no doubt, intended that the maintenance of such reserves should sufficiently secure the solvency of the branch in respect of its sick and funeral obligations. No attempt was made by the society, however, to comply with the Statute. It seems clear that no standard sickness table was used for the purpose of computing the sick and funeral rates, and, indeed, that no computation of any kind was made, either in respect of the rates fixed or in respect of the reserves to be maintained. The fund, which stands at something less than $1,200, is grossly inadequate to answer the purposes required by the Act.

It was quite impossible to obtain any clear knowledge of the actual position of the company, the state of any of its funds, its income, expenditure, assets or liabilities. The society kept no ledger, and its cash book entries have never been posted or classified or assembled in any way. The accountant employed by the commission reported his inability to apply any check to the bookkeeping of the society.

Its yearly returns appear to have been based largely upon estimates and not upon actual analysis and summation. All its funds have been mingled in a single bank account, from which all payments were made.

Under these circumstances, it is not remarkable that much more has been paid out for expenses than the funds available. The insurance funds have been continuously subject to depletion, the covering device being to borrow money from the bank upon promissory notes approximately representing the overdraft from time to time, and crediting the proceeds of their discount to the mingled account. On December

31, 1905, this borrowing amounted to $9,542.60 besides which the society owed in office rent and salaries, $1,503.98. The bank charged 5 per cent upon the moneys loaned, and paid 3 per cent upon the deposit.

The society returned ledger assets at $169,928.62 on December 31, 1905. The accuracy of this it has been impossible to verify.

There were returned as in force at the same date 10,438 policies, insuring $11,499,000, besides $100 per member, or $1,043,800 for monuments. The number of sick and funeral beneficiaries was 611, and the total assets of that branch were returned at $1,087.89, omitting a small amount returned as uncollected premiums.

There have been periodical audits of the society's accounts, but as the material for a proper audit has never existed, these audits must have been the merest pretence.

This society has had members paying upon four schedules of rates. When incorporation took place in 1893 a schedule was fixed which is shown in outline in the third column of the following table. The society, however, then admitted in a body those members of the old unincorporated society who chose to join them. There were, perhaps, four or five hundred of these, and they were permitted to continue paying the rates fixed by the unincorporated society, which are shown in the second column of the table. In 1896 the rates were raised to the extent shown in the fourth column, but the increase did not apply to either class of old members. In 1900 they were again raised to the amount given in the fifth column, but all classes of old members were left unaffected. In 1904, when the Knights of the Maccabees, another friendly society, raised the rates of that society to a higher figure than the rates then in force among the Woodmen, about four hundred of the Knights were admitted at the 1900 rates, but as of their respective ages when they joined the Maccabees, paying $11 per $1,000 of insurance for the privilege. In 1901 a committee was appointed to consider proposals to charge current rates to old members, to increase the current rates and to admit women. The committee reported favourably upon all proposals, recommending the adoption of the Hunter rates, referring, no doubt, to the table of rates contained in the schedule to the Ontario Insurance Act. The only portion of the committee's report that was adopted was that relating to the admission of women.

January 30, 1906, the Sessional Committee of the society reported:

> 'that judged by any standard system of comparison, our present rate is not nearly adequate for the purpose of our Order, and that the longer we continue to accept business under these rates, the greater will be our eventual loss.'

The report was very careful and elaborate. It pointed out, among other things, that at the existing rates, an applicant entering at 30 would at 60 have used up the whole amount paid by him above actual mortality cost, though kept invested continuously at 4 per cent, and that an applicant entering at 38 would be in a similiar position at 58. The committee recommended the rates outlined in the sixth column of the table. The head camp rejected the recommendation, although it does not appear to have been intended to apply to the old members. The other columns in the table enable a comparison to be made of all these schedules with the rates fixed by the Hunter, National Fraternal Congress and Tables respectively:

Age.	1891.	1893.	1896.	1900.	1906.	Hunter's.	N.F.C.	O (m)
20	4.80	4.20	6.00	7.44	10.80	.....	.....	.....
25	4.80	4.80	7.20	8.16	12.48	13.66	13.11	15.21
30	5.40	5.40	7.80	8.88	14.64	.....	.....	.....
35	5.40	6.00	8.40	9.72	17.40	18.50	18.28	20.76
40	6.00	7.20	9.00	11.52	21.12	.....	.....	.....
45	6.60	9.00	10.20	15.12	25.92	27.13	27.19	29.85
50	9.00	13.80	14.40	27.04	32.52	.....	.....	.....
55	18.00	30.00	30.00	36.00	41.28	42.83	43.30	45.87

The exemption of old members from the payment of the present rates seems to be a direct contravention of the terms of by-law 112 (a) fixing these rates, which makes them apply in express terms to every member. It was said that the 'understanding' was that old members should not be affected, but no such understanding ought to prevail against the clear language used.

It must not be forgotten that the various rates fixed from time to time by the society, while nominally fixed with relation to the amount of the policy or certificate, should, in reality, be sufficient to provide for an additional $100 upon each policy, by reason of the monument provision.

The Commission called upon Mr. Grant, of the Insurance Branch, for a valuation of the insurance obligations of the society upon the basis of the National Fraternal Congress Mortality Table, at a 4 per cent rate. The result of that valuation is to fix the present value of the society's obligations, not including the sickness and funeral benefits, at $1,017,100.

Mr. Blackadar made an entirely independent valuation, using, however, the H (m) table and a 4 per cent rate. This valuation is $1,026,186.

The ledger assets of the society, claimed by the return of December 31, 1905:

Return of December 31, 1905 amounted to	$169,928 62
The other assets given were	14,892 28
Total	$184,820 90
The liabilities, according to the return were	$ 27,546 58
Available assets	$157,274.32

Your Commissioners intend to discuss the position of this and other fraternal societies from this point of view more fully under an appropriate heading in a subsequent part of this report.

THE SUBSIDIARY HIGH COURT OF THE ANCIENT ORDER OF FORESTERS IN THE DOMINION OF CANADA.

This society, prior to 1881, was a dependency of an English society. In that year it became independent, and commenced the business of insuring its members, under the name of 'endowment'.

The first incorporation was under the General Ontario Act, R. S. O., 1877, cap. 167. Subsequently, under circumstances and for reasons which will be explained, it obtained from the Dominion in 1898 an incorporating Act, 61 Vic., cap. 91. That Act declared the objects of the society in terms which, for the purposes of this report, do not differ materially from the terms in which the objects of the other friendly societies, already reported upon are declared. The provision which distinguishes the incorporation by Parliament of this society from that of any other society with which this report has had to deal is the requirement imposed by Section 10 of the Act that, in respect of all policies issued after its passing, a fund equal to a reserve computed acording to the standard provided in the Insurance Act shall be maintained. This circumstance marks, in the opinion of your Commissioners, a definite advance by Parliament towards the placing of friendly societies upon the sound basis of maintaining such a reserve as will amply secure their members in respect of their insurance contracts.

The same section, in effect, left prior insurance of the society's members to stand upon its own footing without the inequitable aid afforded by the contributions of new members, by requiring the business in respect of new insurance to be kept entirely distinct and separate from the old, and by prescribing an absolute separation be-

tween the funds accruing under the old insurance and those accruing and passing into reserve under the new.

In other respects the Act is not substantially dissimilar from the other Acts incorporating friendly societies which have been noticed.

The history of this important change in the character of friendly society legislation is not without interest. This society had extended its business into the province of Quebec and had considerable membership there, when, in January, 1898, the legislature of that province passed an Act requiring mutual benefit societies and benevolent associations incorporated in other provinces to make a deposit of $5,000 with the Provincial Treasurer, and to select a head office and appoint a general agent in the province of Quebec.

The next regular sitting of the High Court of the society was not to take place till 1899, and the executive, unwilling to accede to the new Quebec law, decided to apply to Parliament for an Act of incorporation, after obtaining which a Dominion license could be procured, entitling the society to do business in all the provinces of the Dominion, without reference to any provincial license requirements.

The time for introducing private Bills in the House of Commons had expired, but, by well directed and persistent effort, this obstacle was surmounted. The Bill, as introduced, contained so much provision as section 10 of the Act. Its passage was opposed by the Superintendent, and was only secured after its promoters had assented to be put under compulsion to maintain the legal reserve in respect of all new business.

The executive was subjected to some criticism at the meeting of the High Court in 1899, but their action was, in the end, approved by that meeting, and by an ingenious arrangement and offer of options to the old members, from whom the opposition came, calculated to induce them to bring their insurance within the new provisions, the difficulties were substantially composed, very few, it is said, retiring, and nearly all availing themselves of one or other of the options, so that at the date of the inquiry all the insurance on foot was insurance in respect of which the legal reserve was being maintained.

The options were as follows:—

(1) Reduction of the new rates by the member's shares in the then existing fund;

(2) Reduction of policy by lien to the extent of the difference between the policy's share of the then existing fund and what its share would be of a full legal reserve, the member paying by way of premium the new rates at age of entry and interest on account of the lien at 5 per cent;

(3) Continued payment of old rate, but certificate to be issued for such amount only as old rate and policy share of the then existing fund would purchase at new rates;

(4) Payment discontinued altogether, member receiving paid up certificate for his policy's share of the then existing fund.

The officers of the society who were examined were explicit with regard to the general satisfaction of the membership under the new conditions and the improved standing and prospects of the society.

Before the change the membership was falling off; few new members were joining, and the aging of the old membership was seriously increasing the death rate.

Since the change there has been a steady and healthy growth in the new membership, the old members have the satisfaction of knowing that they are themselves paying for the carrying of their own insurance, and the new members are relieved of the alarming drain upon their surplus contributions, intended to carry their own insurance in its later and more expensive years, but theretofore diverted to the making good of the excessive cost of keeping the insurance of the old members on foot.

It seems to be beyond the powers of this society to stipulate, as it does by endorsement on the policies in one class, that the member may be paid a portion of the insurance in cash, taking paid up insurance for the balance. The incorporating Act permits only contract to pay on proof of the member's death.

On 31st December, 1905, the society had 1,163 policies in force, assuring $1,048,882.

GENERAL OBSERVATIONS AND RECOMMENDATIONS.

In the foregoing synopsis of the results of the inquiry into the organization and management of the Canadian companies holding Dominion licenses, your Commissioners have endeavoured merely to collect and arrange the facts as disclosed in the evidence adduced before the Commission from which proper general conclusions may be drawn. They have not attempted to draw such general conclusions, nor have they attempted to deal with questions of pure insurance, believing that such conclusions may more fitly be drawn and such questions more advantageously discussed in this part of the report, where, in a general review of the whole field, an effort will be made to present in some systematic shape those features of the present situation which call for comment and remedy. The demand for reform may properly, in this general review, be pointed by illustrations drawn from the history of the different companies as disclosed in the course of the inquiry.

The freedom from legislative control which obtains in Great Britain in life insurance matters and which is so much emphasized in the statements of British actuaries and managers put before the Commission, indicates an ideal condition; no legislative check upon investments, no standard legal reserve, but a system of returns which lends itself to complete publicity in all essential business details. If the conditions of the life insurance business in this country bore any proximate resemblance to British conditions, a similar legislative freedom might induce similar positive results here. But in the opinion of your Commissioners the conditions are quite dissimilar.

In Great Britain life insurance companies are usually managed by scientific actuaries, who devote themselves to life insurance business alone.

More attention is paid to soundness of insurance basis and accuracy of insurance results than to financing on a large scale.

A British life insurance company is not an enterprising aggregation of capital seeking to influence the markets or hold the financial balance of power.

Then there is in Great Britain a large body of trained expert actuarial opinion, and insurance companies cannot stray far from sound methods, without detection and publication of their error.

In the main, Canadian conditions are quite the opposite.

Yet, so far as abuses have not been developed in practice, freedom is to be preferred to legislative control. The task before your Commissioners is to be performed with a view to recommending changes in the existing law in those respects only in which it has failed to prevent some real wrong.

An orderly arrangement of the topics which fall to be dealt with will much assist in the discussion.

(1) The share which policyholders ought to have in the active supervision of the management.

(2) The relation of directors to policyholders and their interests, including questions of individual or concentrated control, and the powers and duties of directors with regard to investments and management generally.

(3) These two topics will properly lead up to the subject of mutualization.

(4) The important question of expense demands the most careful examination, in view of the alarming increase in the ratio of general expense to income, especially

in respect of the initial or first year's expense, and in view of conditions arisin largely from the headlong struggle for large accretions to the volume of business.

(5) A topic of the last importance is the range of permissible investments. This topic includes a discussion of the systematizing of the present powers and of bringing all existing companies under uniform provisions. It also calls, in view of the conditions which prevail in some companies, for an examination of the principles which ought to guide the management in making investment within the permissible range, and the personal relations of the management towards the properties and securities in which investment is made. It also demands an inquiry into the subject of allied and subordinate companies as a means or vehicle of investment.

(6) The valuation of policies is a subject of great importance, involving, as it does, the vital question of solvency in respect of insurance obligations.

(7) Closely allied with the foregoing topic is the question of lapse and surrender values, and the question whether some, and if so, how much uniformity in respect of insurance practice in this regard should be prescribed.

(8) This naturally leads to the question whether the policy forms of permissible insurance should be simplified and an attempt made to standardize them.

(9) What, if any, remedy ought to be devised to secure to policyholders the ascertainment and distribution of the profits to which they are entitled? Is the modern practice of companies to hold and administer large accumulated surplus funds, undistributed and unaccounted for, a practice which ought to be encouraged? Is it consonant with sound principle to treat such moneys as trust funds which belong to policyholders, and in respect of which strict accountability ought to be enforced?

(10) The question of amending the present statutory requirements with regard to returns by the companies, and generally of securing such publicity, by means of those returns and otherwise, as will facilitate comparisons between the methods and results of different companies and minimize abuses in practice, will require careful consideration.

(11) The departmental methods will require examination, with a view to ascertaining whether any and what wider powers and duties ought to be conferred and imposed so that there may be such effective supervision as will secure regularity and propriety in the business of life insurance.

(12) Fraternal insurance is a subject which calls for careful and special examination.

(13) Is it expedient that the state should enter the life insurance field, and if so, to what extent and under what limitations?

(14) Is it expedient and possible, having regard to questions of conflicting jurisdiction which may arise between the Dominion and the provinces, to arrange for practical contractual uniformity throughout Canada?

1. The Share which Policyholders ought to have in the Active Supervision of the Management.

This question concerns participating insurance only. With regard to non-participating insurance, the insured makes his contract, its terms are definite, its amount does not vary with the prudence or imprudence of the insurer, and the laws of the country afford adequate security in the shape of the legal reserve.

But a different question arises in the case of participating insurance. Here the insurer takes the insured into a quasi-partnership and the partner is vitally concerned with those considerations of prudence and imprudence which bear upon the earning of partnership profits.

Seven of the following insurance companies, all of which are empowered to confer the franchise upon participating policyholders, afford them facilities more or less cautious and more or less effective for taking part in company government.

Company.	Voting Qualification in Insurance.	Directors' Qualification.	Vote for Whole or Part of Board.
	$	$	
Canada Life	3,000	10,000 Insurance.	Six out of fifteen.
Confederation	1,000	5,000 Insurance.	Whole board, 12; not less than one-third must be policy holders.
Federal Life	1,000	Must have stock qualification.	Whole board.*
London Life	1,000	3,000 Insurance.	Three out of nine.
Manufacturers	1,000	Must have stock qualification.	Whole board.
Home Life	1,000	"	"
Northern Life	1,000	"	"
Imperial Life	1,000	"	" *
National Life	1,000	"	" *
Royal Victoria	1,000	"	" *
Crown Life	1,000	"	" *
Sovereign Life	1,000	"	"
Monarch Life	1,000	"	"
North American	1,000	5,000	"

*These companies are authorized by Statute to extend the franchise to policyholders but have never done so.

No method hitherto adopted for securing a policyholder's vote has been found satisfactory. Personal attendance at meetings is not to be expected, and the proxy system does not tend towards the expression of individual opinion. But indeed the great body of policy-holders, while not indifferent nor apathetic upon questions of management, is at present powerless for practical purposes. Perhaps it is felt that no one person's views and attitude can affect the management policy. Even if there were great questions upon which the management divided and upon which policy-holders were roused, their proxies would be largely at the command of that party which made the most strenuous canvass. There are numbers but no coherence.

What are the evils, actual or possible, which the better representation of policy-holders in the management may be expected to cure or mitigate?

(1) The possibility of mismanagement of funds and investments.
(2) The possibility of extravagance in expenditure.
(3) The possibility of unfair treatment of policy-holders:
  (*a*) upon their insurance contracts.
  (*b*) in respect of profits.
(4) Unwise contracts of insurance.
(5) The entrenchment in power of the management.

Your Commissioners have considered with much anxiety the question whether it may reasonably be hoped to prevent or mitigate these evils by enlarging the rights of policy-holders. It is believed that many of them will be practically ended if the recommendations made under other heads of this report are adopted, particularly those relating to investments, expense, the simplification and standardization of insurance contracts, returns and publicity. It does not seem practicable to legislate effectively against the acquisition of controlling stock interests. If the abuses likely to arise from the concentration of interest and entrenchment in office are not prevented by prohibiting dealings in which those who embody the concentration and entrenchment are interested, they are not to be prevented by any combination of policyholders of which there is any historical instance.

It is, however, hoped that better provision may be made for bringing home to the policy-holders the questions which so vitally concern them. The law as to proxies and voting, which is recommended in the case of mutual companies, and which is more fully discussed hereafter, may well be applied to those stock companies which have

extended a franchise, hitherto illusory, to their policy-holders. If it should be found in practice to be effective in the case of those companies, its extension to others may require future consideration.

In the attempt made by your Commissioners to suggest improvements to the existing law in this respect it is intended to put all companies which admit policyholders to vote, upon the same footing with regard to the policy-holder's voting qualification and to make the possessor of the voting qualification eligible to the office of director.

With regard to mutual companies, of which there is now, properly speaking, only one, different considerations arise, not because the evils to be apprehended are different in their character, nor because it may not be hoped to reach them by the introduction of the amendments which have been referred to, but because it is of the essence of a mutual company that the policyholder should govern. It is, therefore, of importance that his government should be real and not a figment, and that apart altogether from respect for the safeguards which the legislation referred to may interpose, the management should at all times have a wholesome sense of real responsibility to an active and wide-awake constituency.

The proxy system is capable of much improvement, upon very simple lines. It would not, in the opinion of your Commissioners, be wise to abolish it, and to substitute voting singly by mail. Policyholders are a scattered body, and should have the ability to unite in expressing their views which the proxy system alone can secure. But every proxy should be given for the single occasion only which brings it into being, and should not be capable of use beyond that occasion. This will stimulate the interest of the policyholder, and minimize the abuse of his proxy.

The proxy given for the special occasion should not be a stale proxy when used, but should be executed by the policyholder within three months before the occasion of its use.

The Commission is aware that this recommendation may, and perhaps will, involve something in the nature of an annual election campaign, but this is not, in the opinion of your Commissioners, undesirable, as it makes for the education of the constituency and for the vigilance and good conduct of the directors.

To personal voting and proxy voting as above limited, there can, in the opinion of your Commissioners, be no objection to add the single voting by mail. This method of expressing the policyholders' views would, in practice, be limited to the vote for directors. No policyholder would be aware of any of the other questions which might arise in the meeting at which the vote is given. Your Commissioners have considered with care the question of informing the policyholders in advance what questions are to be discussed. There is much to make this desirable, but there is against it, not only the expense involved but another circumstance which your Commissioners think decisive. It has been the practice with some companies in the past to make provision forbidding any question to be raised or any motion made at a general meeting without certain prescribed notice. These provisions have tended to minimize criticisms, and, therefore, should not, in the opinion of your Commissioners, any longer be permitted to continue. If, then, there is to be an open door to discussion at these meetings, it will not be practicable to give full information to policyholders, in advance, as to the business to be done, and any attempt to give such information might mislead.

But with regard to the election of directors the position is different. Every policyholder ought to be put in possession in ample time of the information necessary to enable him to make an intelligent choice. There should be a system of nominations, under which, at a convenient date before the meeting, the candidates who are eligible for election are definitely ascertained. Their names, when so ascertained, ought to be notified to the policyholders, so that if not in attendance at the meeting they may vote by mail or give their proxies intelligently.

The method of nomination and election adopted in the State of New York in the recent insurance legislation there has recommended itself to the Commission, with some modifications. The scheme may in legislation take the following shape:

(1) The following provisions shall extend and apply to every mutual life insurance corporation and to every other life insurance corporation having a capital stock whether called by the name of capital stock, guarantee fund, or any other name, under the jurisdiction of the Parliament of Canada, whose policyholders now are or shall hereafter become entitled to vote for directors, whether in common with stockholders or by a separate vote, save that the provisions of section (5) and so much of section (4) as relates to the withdrawing before the election of the lists therein mentioned shall not apply to the case of such separate vote.

(2) At every election of directors, every policyholder whose insurance shall be in force and shall have been in force for at least one year prior thereto, shall be entitled to vote without other qualification, either in person or by proxy, or by mail, as herein provided.

(3) Every such policyholder shall be entitled to one vote only, irrespective of the number of policies or the amount of insurance held by him, and unless a policy shall have been assigned more than six months prior to the election by an assignment absolute on its face to an assignee other than the corporation which have issued the policy, the person upon whose application the policy shall have been issued, or, if the application be signed by more than one person, the person whose life is insured shall be deemed to be a policyholder entitled to vote as aforesaid; in case a policy shall have been assigned as aforesaid, the assignee shall be deemed to be a policyholder entitled to vote, provided his signature, attested by the assignor, shall have been filed at the head office of the corporation which shall have issued the policy.

(4) At least five months prior to every such election every such corporation shall file with the Superintendent of Insurance two full and correct lists of the names and last known post office addresses of all policyholders who will be entitled to vote thereat under the foregoing provisions. The names of said policyholders shall be arranged on said lists alphabetically and shall be classified by provinces and territories of Canada, the kingdom of Great Britain and Ireland, other British possessions and foreign countries and states. Such corporation shall also maintain two similar lists at its head office; and at its general agencies in every province and territory of Canada. All said lists shall be subject to inspection and copy at any time during business hours by any policyholder in said corporation or by his authorized representative, during the five months prior to such election; provided, however, that after such election, or, if no candidate shall have been nominated other than those nominated by the board of directors, then after the time for such independent nominations shall have expired, such lists may be withdrawn by the corporation filing and maintaining the same as aforesaid.

(5) At least five months prior to the date of any election of directors in any such corporation, the board of directors shall nominate a candidate for each vacancy to be filled at such election in the filling of which policyholders are entitled to vote, and shall also appoint three persons, jointly or severelly, to receive proxies to be voted for said candidate or candidates, and shall also file with the Superintendent of Insurance at its head office and at the office of the general agency above described a certificate of the name or names of the candidate or candidates so nominated and of the persons so designated to receive said proxies.

(6) Any ten or more policyholders of such corporation entitled to vote may also nominate a candidate for each such vacancy, by filing with the Superintendent of Insurance and at the head office of the corporation, at least three months before the election, a certificate signed and attested, giving the names and addresses of the candidates nominated and the names and addresses of three persons, jointly or severally, designated to receive proxies to be voted for said candidates.

(7) At least two months prior to any such election the corporation shall cause to be mailed in a sealed envelope to each policyholder whose name sholl be upon said list and whose policy shall still be in force, at his last known post office address, a printed ballot paper containing the names of the candidates nominated as hereinbefore provided and of the persons so appointed to receive proxies, conveniently arranged so as to indicate and distinguish between the different nominations. The ballot paper shall have printed upon it the name of the company, the post office address of its head office, the number of directors to be elected and the names of those whose terms expire, the date of the election and instructions as hereinafter provided for the use of said ballot paper and of the proxy hereinafter mentioned, and a designated space for the signatures of the policyholder and of a subscribing witness.

(8) There shall be inclosed in such sealed envelope with such ballot paper, a suitable return envelope, having thereon the name and post office address of the head office of the corporation, the words 'ballot for directors' and a designated space for the policyholder so voting to write his name, his post office address and the number of at least one policy held by him. There shall also be inclosed in such sealed envelope a suitable blank proxy upon which shall be printed a statement of the right of the policyholder to vote either by mail or by proxy as herein provided or in person.

(9) No other paper or written or printed matter shall be inclosed in such sealed envelope, and specimens of such sealed envelope and inclosure shall be approved by the Superintendent of Insurance before being so mailed.

(10) A policyholder desiring to vote by mail may indicate upon the ballot paper the name or names of the candidate or candidates for whom he desires to vote by making a cross or crosses opposite such name or names or by striking out the name or names of those for whom he does not desire to vote, or he may otherwise suitably indicate the same in writing, and he must sign the said ballot paper or other writing in his own handwriting in the presence of a subscribing witness, and inclose the same in such return or a similar envelope, upon which must be written his signature in his own handwriting and his post office address and the number of at least one policy held by him. Such return or similar envelope may be mailed post paid by the policyholder to or may be delivered at the head office of the company.

(11) No policyholder may vote for more than the number of directors to be elected, and all ballots upon which the intent of the policyholder does not fairly appear shall be void.

(12) Any policyholder may vote by proxy executed to any person, whether designated in the certificates filed as aforesaid or otherwise.

(13) The execution of any proxy shall be attested by a subscribing witness and the proxy shall set forth the number of at least one policy held by the person giving it.

(14) A proxy shall not be valid unless executed within three months prior to the election and shall be used only at such election or any adjournment thereof and may be revoked by the policyholder giving the same at any time to the opening of the polls upon the day of such election.

(15) The votes at such election shall be limited to the candidates nominated as aforesaid.

(16) The election shall be by ballot and shall be held at the head office of the company, and the polls shall be opened at ten o'clock in the forenoon and remain open until four o'clock in the afternoon of the day of the election, at which time they shall be closed. The board of directors shall appoint an adequate number of scrutineers who shall be qualified voters and shall be paid for their services by the company. Every ballot except those cast by proxy shall be signed by the policyholder in his own handwriting. In casting a vote under a proxy the proxyholder, or, if three or more persons are named jointly in the proxy, a majority thereof, shall place his name and address or their names and addresses on the ballot and shall indicate thereon the number of votes offered under the proxy.

(17) All envelopes received at the head office of the company marked substantially as 'ballot for directors' at any time before the day of election or on that day before the polls are closed shall be preserved intact without opening, and before the polls are closed shall be delivered to the scrutineers. Any person concealing or withholding, or participating in the concealment or withholding, from the scrutineers, or, not being a scrutineer, opening or being privy to the opening of any such envelope, shall be guilty of a misdemeanour.

(18) No ballots received by mail or delivered at the head office of the company or offered personally or by proxy after the polls are closed shall be counted.

(19) All ballots offered personally or by proxy and all ballots received by mail or delivered at the head office of the company, as aforesaid, before the polls are closed, shall be received by the scrutineers, subject to verification and ascertainment of the validity thereof and of the qualifications of the voter.

(20) Immediately upon the closing of the polls the scrutineers shall proceed to the examination of the ballots and shall count the votes lawfully cast. The count shall proceed from day to day and the scrutineers shall certify the result to the company as soon as it is completed.

(21) One qualified voter, designated by a majority of each three persons who shall have been appointed to receive proxies to be voted for nominations as aforesaid, may be present during the casting and the counting of the votes.

(22) All ballots, proxies and envelopes received by the scrutineers shall immediately upon the completion of the count be placed in sealed packages and shall be preserved by the said scrutineers for a period of four months, subject to the order of any court having jurisdiction in respect thereof.

(23) No expense incurred in the preparation, printing, circulation, obtaining or use of proxies, other than those provided for by section 8 hereof, shall in any case be borne or paid in whole or in part by the corporation.

(24) The including by any corporation of the name of any person in any list of policyholders required by this section shall not be construed as an admission by the corporation of the validity of any policy, and no such list shall be competent evidence against the corporation in any action or proceeding in which the question of the validity of any policy or of any claim under it is involved.

SUMMARY.

1. As to mutual companies and companies which now permit shareholders to vote, make the voting franchise and directors' qualifications uniform.
2. For the present do not force the policyholders franchise upon companies in which no such franchise now exists.
3. Where the franchise exists, election of directors by ballot and policyholders to have right of nomination.
4. Policyholders may vote at elections in person, by proxy or by mail.
5. Proxies to be furnished policyholders for purpose of election, and to be good for election only.
6. Abolish requirements as to notice of motion for general meetings.
7. Publication of lists of policyholders.

II.—The Relation of Directors to Policyholders and their Interests, including Questions of Individual or Concentrated Control and the Powers and Duties of Directors with Regard to Investments and Management generally.

It seems to the Commission of importance to define the nature and position of the funds resulting from the operation of insurance companies. Save in so far as capital stock plays a part, these funds are either a reserve kept in hand to discharge the insurance obligation or a surplus resulting from a charge upon the persons insured in excess of what it has cost to insure their lives. The policyholder contributes

both reserve and surplus, and where business is done upon the participating plan it is the surplus moneys that are called profits. How unimportant a part may be played by capital stock is demonstrated by an examination of the table showing the capitalization of the different companies, in an early part of this report. In truth, when an insurance company's position has become established, its capital stock becomes a mere document of title by virtue of which a particular body of persons control those larger and more important funds which the policyholders contribute. And there is reason to fear a confusion of ideas, with regard to his relation to these funds, on the part of the person in control.

Insurance companies tend to become powerful aggregations of money, with financial rather than insurance aims. The power to engineer these aggregations becomes a thing to be desired by financial operators, and the acquisition of the documents of title, the stockholdings, which may be of the pettiest face value, carries that power with it. A striking instance is stated in the report of the Armstrong committee. An insurance company had a capital of $100,000, the dividends upon which were limited to 7 per cent. The dividends upon a controlling interest, $50,200, could therefore never exceed $3,514. Yet for that controling interest, $2,500,000 was paid.

The Commission attributes to this feature of the insurance practice of the present day most of the evils under which the insuring public suffers. The race for new business, with its extravagant expenditure and its forced and in consequence more or less non-persistene additions to the volume of insurance,, is distinctly one of its results. The large companies in the United States, which had fallen into the hands of financiers with whom insurance was but a means to an end, began the struggle for larger accumulations of money, and smaller companies were drawn into the current of extravagance. The deferred dividend system was devised to facilitate the accumulation and retention of policyholders' money. Speculative instead of investment fields are eagerly sought. Directors aim at the forwarding of their own schemes. Underwritings and syndicates, the select machinery of finance, are operated with insurance funds.

And what is the character of these funds? Are the purposes to which they are being devoted consistent with that character? Your Commissioners have no doubt that accumulated insurance funds are, in every essential particular, trust funds. They belong to the policyholders and not to the shareholders. The directors are not in possession of them as trading capital in any sense or to any degree. They are not subject to trading risk. They are held in trust for investment and to be eventually paid to those whose moneys they are. Being trust funds the function of the directors in regard to them is the function of trustee. Once the subject is put upon this simple basis the criterion for determining the propriety of any particular dealing by the directors with these funds also becomes simple. Ought a trustee to do this with trust funds? Once this is recognized as the test, all difficulty disappears.

If the concentration or individualizing of control is made the means of diverting the trust funds from the trust purpose, even temporaily, this fundamental law is broken. If vehicles of investment which are outside the statute governing investments are employed, the law is broken. If permitted vehicles of investment are employed to aid the private interests of the trustee, the law is broken again. No trustee is permitted to occupy a dual position with regard to his trust. He cannot be upon both sides of a transaction.

The control by one hand creates a situation which requires the most jealous scrutiny. It involves the removal of those restraints upon conduct which are promoted by equal discussion upon equal terms among co-trustees. It is not practicable, nor, in the opinion of your Commissioners would it be wise to legislatively forbid it. Interference with the free purchase and sale of property of any kind would be out of joint with the times. But it is practicable to put safeguards upon the exercise of that control so as to prevent or minimize its abuse. No director should be permitted to have any personal interest whatever whether as principal, agent or beneficiary in

any property which is the subject of investment by his company, or in any of his company's transactions. Underwritings and syndicates for the handling of securities should be forbidden altogether. Nor should there be any dealing between an insurance company and any other company of which any director of the insurance company is a shareholder.

All contracts with officers should be authorized in express terms by the board of directors and no such contract should be for a longer term than three years. The providing in any such contract for remuneration to the officer by way of commission out of future income should be prohibited. The rebating to or rewarding particular policyholders under the guise of payment for services as members of local or advisory boards and the like should be prohibited.

III.—Mutualization.

The history of the only purely mutual company under license, The Mutual Life Assurance Company of Canada, having its head office at Waterloo, is proof of the possibility of successful operation without a capital stock. The comparatively small paid up capial stock upon which most of the stock companies have built their business goes far in the same direction. The Canada Life, with its $1,000,000 of paid up capital, is no exception, for its great business was built upon a capital of $125,000, of which half was paid out of profits. So, too, with the Sun Life. The whole cash, apart from profits, necessarily put up by its shareholders, was $62,500.

It seems reasonably plain that if an insurance business possesses the elements of success, the capital stock soon ceases to play any important part in its operation. It is difficult to deny, however, to the capital actually adventured, the position of security and profit which its adventure has earned. In cases like that of the Canada Life, where $875,000 was put into an established and flourishing business, for the sole purpose, so far as the Commission has been able to ascertain, that it might earn, at the expense of the policyholders, a larger rate of interest than it inherently commanded, no such considerations apply.

Your Commissioners are not satisfied that there is any real demand for mutualization among policyholders. It may well be that the majority prefer the additional security which the existence of a capital stock affords. With the machinery recommended for enabling them to express their opinions more effectively, they may, perhaps, be heard from in the future.

In this connection it must be remembered that in the case of the one purely mutual company within the range of this inquiry the existence of the mutual principle has not prevented the management from retaining practical continuity of control.

IV.—Expenses.

Before dealing with the large and perplexing question which arises from the extraordinary forcing of new business and the consequent wasteful expenditure in securing it, the Commission presents such a financial history of the Canadian companies, in outline, for the year 1905, as will place the problems to be solved in a plain and concise form.

The various companies were required to furnish statements of their profits and losses during 1905, on forms provided by the Commission. The Central Life was excepted because its operations were too recent to give results of value; and the Union Life because, without a similar statement from its agency company, the information furnished would have been misleading.

The aggregate profits* for the year, as shown by these statements, were $5,507,903, and the aggregate losses $2,600,285, leaving a total net profit of $2,907,618, or 52·8 per cent of the gross profits, but, as explained in a subsequent table, 'Profits' includes the writing up of securities still held. For instance, in the case of the Sun Life, as will shortly be seen, more than a million dollars of writing up was included.

*By this, 'gross earnings', as in a railway company's statement, are not intended; but merely the sum of profit balances in the profit and loss statements.

All the companies except four show a net profit for the year, the exceptions being the Crown, Sovereign, Royal Victoria and Home. Their combined net loss was $87,464.

The companies differed very widely in the percentage of the gross profits saved. Table I. collects the profits and losses.

TABLE I.

SHOWING the Total Profits, Total Losses and Net Profits or Losses.

Company.	Total Profits.	Total Losses.	Per Cent.	Net Profits.	Per Cent.	Net Losses.	Per Cent.
	$	$		$		$	
North American	352,114	190,846	57.5	161,268	42.5	.....	
Manufacturers	412,597	246,677	59.8	165,920	40.2	.....	
London	64,595	36,079	55.9	28,516	44.1	.....	
Excelsior	79,973	52,540	65.7	27,433	34.3	.....	
Continental	7,077	3,055	43.2	4,022	56.8	.....	
Crown	33,769	43,329	128.3	.....	.....	9,558	—28.3
Imperial	228,203	139,609	60.8	88,594	39.2	.....	
Canada Life	965,385	459,957	47.6	505,428	52.4	.....	
Confederation	325,238	149,232	45.9	176,006	54.1	.....	
National	49,744	22,965	46.2	26,779	53.8	.....	
Sovereign	21,537	41,002	190.7	.....	.....	19,465	—90.7
Federal	171,078	105,972	61.9	65,106	38.1	.....	
Mutual	417,813	149,956	35.9	267,857	64.1	.....	
Dominion	49,231	32,091	65.2	17,140	34.8	.....	
Northern	42,972	24,805	57.5	18,167	42.5	.....	
Great West	225,598	141,538	62.7	84,060	37.3	.....	
Sun	2,003,909	645,123	32.2	1,358,786	67.8	.....	
Royal Victoria	19,193	43,623	227.3	.....	.....	24,430	—127.3
Home	37,877	71,888	189.7	.....	.....	34,011	—89.7
	5,507,903	2,600,285	47.2	2,995,082	.....	87,464	
				87,464			
				2,907,618	52.8		

The foregoing table shows a reduction of the aggregate earnings, by means of losses, to the extent of nearly one-half, without regard to expenses of management, strictly, or to death-claims and similar outgoings, except as to any balance of expenditure over the provision therefor. These have been provided for before arriving at the total profits. The losses to be deducted appear, therefore, to be such as might conceivably have been avoided, and if they had been avoided, the total earnings of $5,507,903 would have been left intact.

An inspection of the exhibits from which Table II. has been compiled shows that no less than $1,554,430, or 53½ per cent, of the net profits, is from two sources:

Gains upon sales or maturities	$599,887
Increase in market values	954,543

TABLE II.

Showing Gains and Losses by Sales or Maturities and by Changes in the Market Values.

Company.	Sales or Maturities.		Changes.		Net	
	Gain.	Loss.	Gain.	Loss.	Gain.	Loss.
	$	$	$	$	$	$
North American	3,721		None	reported.	3,721	
Manufacturers	21,458	5,848	64,384		79,994	
London	1,075		1,030	70	2,035	
Excelsior			484		484	
Continental	2,231		83		2,314	
Crown			2,488	24	2,464	
Imperial	1,274		9,392	651	10,015	
Canada	74,380	4,000	155,949		226,329	
Confederation	119,320	84,536	52,164	45,989	40,959	
National			4,898		4,898	
Sovereign			4,977		4,977	
Federal	22,515	117	27,499	3,931	45,966	
Mutual						
Dominion	484				484	
Northern			459		459	
Great West						
Sun	645,145	207,215	1,054,803	362,515	1,130,218	
Royal Victoria				1,276		1,276
Home			389		389	
	891,603	291,716	1,378,999	424,456	1,555,706	1,276
					1,276	
				Net gain....	1,554,430	

This is 53·5 per cent of the total net profits. As wide a fluctuation the other way would have made the year's transactions show a net loss.

These gains are due to present favourable financial conditions.

The total interest realized, after deducting investment expenses, amounted to $4,262,690.16, which averaged 4·685 per cent upon the assets held by these companies on 1st January, 1905, or rather under 4½ per cent on the mean assets for the year.

The Commission requested the companies to deduct the interest credited to special funds, as well as the interest required to make good the reserve, in arriving at the true profit from interest. But this request was variously interpreted, dividends on capital stock and the like being deducted in some cases.

The aggregate capital of these companies on 1st January, 1905, was $3,743,706.64 and the surplus funds, $9,085,566.33, making a total of $12,829,272.97. Interest on this at 4½ per cent is $577,767.24 and the interest required to make good the reserves is placed at $3,261,063.90, or in all, $3,838,831.14. The total interest realized was $4,262,690.16. The difference, which is surplus interest actually available for distribution to policyholders (otherwise than in interest on accumulations of surplus), is $423,859.02, or a margin of about 10 per cent.

On the basis of the net excess over what is required to make good the reserve, the percentage is about 23 per cent; but this includes the interest on accumulations of surplus.

One company, only, failed to realize interest enough to make good its reserves. Another showed an excess of but 2 per cent.

TABLE III.

Showing proportion of Net Interest Returns (Deducting Investment Expenses) to Interest Required to make good the Reserves.

Companies.	Net Interest Returns.	Required to make good Reserves.	Ratio.
	$ cts.	$ cts.	p.c.
North American	282,598 65	246,808 83	114.5
Manufacturers	270,579 36	234,790 00	115.3
London	83,333 00	65,228 00	127.7
Excelsior	50,018 60	33,069 52	151.3
Continental	15,712 42	10,557 83	149.0
Crown	7,879 68	6,714 22	117.4
Imperial	116,507 00	68,019 00	171.2
Canada	1,216,119 47	929,892 00	130.8
Confederation	481,316 00	421,441 00	114.2
National	10,703 91	12,635 00	84.7
Sovereign	13,977 03	3,477 68	401.9
Federal	96,640 08	77,023 86	125.5
Mutual	391,172 69	332,902 29	117.5
Dominion	54,017 36	29,335 35	184.1
Northern	23,365 00	13,749 00	169.9
Great West	150,170 00	73,396 00	204.6
Sun	958,931 77	670,896 71	142.9
Royal Victoria	16,037 15	15,725 61	102.0
Home	23,611 00	15,402 00	153.4
	4,262,690 16	3,261,063 90	130.7

The assets of these companies on January 1, 1905, were $90,982,611.24 on which the net rate realized was 4·685 per cent. Of these assets, $3,743,706.64 represented capital and $9,085,566.33 accumulated surplus, upon both of which interest must be computed as well as upon reserve, in order to make a proper analysis.

The commission required the companies to show in their profit and loss statements the net amount of death claims expected in 1905, as to policies issued in that year and as to other policies, separately, and also the net amount of death claims actually met with.

The total net mortuary claims in these companies during 1905 were $3,021,-847.96 and the amount expected, in accordance with the Hm. mortality table, which is the Canadian standard for computing the value of policy obligations, was $4,410,202.54. The actual claims, therefore, were but 68½ per cent of the expected.

Individual companies in other countries have shown as low a ratio as this, but so low a combined experience as this, has never, this commission is advised, been presented heretofore. Doubtless it is in part due to the youth of many of the companies and to the large volume of recently-issued business in all the companies; but in large part it is due to the climatic and vital conditions of this country.

The ratios in individual companies vary from 24 per cent to 114 per cent, only two, however, showing percentages in excess of the expected. Though some of the variations are in part explained by acceptance of lives in the tropics, by comparative laxity in accepting risks, by the smaller or larger proportion of freshly selected lives and the like, the widest variations are explained chiefly by the fact that the companies in which they occur have not yet sufficient business to assure a reliable average from year to year. The smallest and largest ratios are found among the newer and smaller companies.

TABLE IV.

SHOWING Total Expected and Total Actual Net Death Losses

Companies.	Expected.	Actual.	Ratio.
	$ cts.	$ cts.	p.c.
North American	331,561 00	199,853 00	60.3
Manufacturers	394,100 00	253,226 51	64.3
London	117,271 00	79,232 00	67.6
Excelsior	57,795 42	25,485 98	44.1
Continental	31,364 85	7,580 57	24.2
Crown	287,520 00	14,080 00	49.0
Imperial	155,852 00	85,247 00	54.6
Canada	1,098,061 02	817,797 06	74.5
Confederation	402,423 00	256,061 00	63.6
National	47,208 96	15,810 04	33.5
Sovereign	11,684 76	13,375 00	114.5
Federal	180,574 89	139,066 04	77.0
Mutual	397,613 56	201,947 49	50.8
Dominion	50,647 62	39,008 00	77.1
Northern	37,401 00	15,433 00	41.3
Great West	206,800 00	110,381 00	53.4
Sun	792,581 05	694,236 37	87.6
Royal Victoria	31,894 41	36,344 90	113.9
Home	36,616 00	17,683 00	48.3
	4,410,202 54	3,021,847 96	68.5

The table of mortality by which the expected death claims were computed—which is also the standard for valuation in Canada—is the Hm table, a table compiled from the history of lives insured in the leading British companies. It covered only up to and including the year 1863, and grouped together all lives at the same age, without regard to duration of insurance. A more recent investigation, covering up to and including 1893, shows that this older table was about correct for British companies during that period, if applied to lives insured longer than 10 years (0m (10) table but that, owing to careful medical examination and selection, the mortality during the first ten years is much lower (0 (m) Select Table).

The expected death-claims in 1905 on policies issued that year, computed by the Hm table, were reported by these companies to be $341,439.67, and the actual death-claims $190,569.41, or about 56 per cent. Probably this lower mortality is explained by the influence of fresh medical selection upon the lives considered, so large a proportion of them having been recently accepted. The extreme variations shown are due to the comparatively small number of lives at risk.

TABLE V.

SHOWING Percentage of Actual to Expected Losses in respect of Policies issued within the year (1905).

Companies.	Expected Losses.	Actual Losses.	Percentage.
	$ cts.	$ cts.	p.c.
North American	22,550 00	4,805 00	21.3
Manufacturers	32,460 00	14,650 00	45.1
London	14,270 00	5,065 00	35.1
Excelsior	9,435 53	3,397 28	36.0
Continental	4,640 51	947 08	20.4
Crown	5,560 00	Nil.	
Imperial	17,093 00	6,474 00	37.9
Canada	54,780 00	36,398 00	66.4
Confederation	22,884 00	9,119 00	39.9
National	7,559 25	Nil.	
Sovereign	2,728 22	Nil.	
Federal	13,021 72	Nil.	
Mutual	24,393 27	26,414 00	108.3
Dominion	4,126 79	8,234 50	199.5
Northern	5,338 00	3,000 00	56.2
Great West	23,500 00	4,500 00	19.2
Sun	67,597 13	63,065 55	93.3
Royal Victoria	5,848 25	2,500 00	65.0
Home	5,654 00	2,000 00	35.4
	341,439 67	190,569 41	55.8

In respect of policies issued before 1905, the expected death claims in 1905 were $4,068,762.87 and the actual death claims, $2,831,278.55, or about 70 per cent, showing a salvage of $1,237,484.32.

The variations are not so wide as in the ratios for the calendar year of issue, the number of lives being proportionately much larger. Yet they vary from 25 to 149 per cent, only two companies showing ratios exceeding 100 per cent.

TABLE VI.

SHOWING Expected and Actual Death Losses under Policies issued before 1905.

Companies.	Expected.	Actual.	Ratio.
	$ cts.	$ cts.	p.c.
North American	309,011 00	195,048 00	63.1
Manufacturers	361,640 00	238,576 51	66.0
London	103,001 00	74,167 00	72.1
Excelsior	48,359 89	22,088 70	45.7
Continental	26,724 34	6,633 49	24.8
Crown	23,192 00	14,080 00	60.7
Imperial	138,759 00	78,773 00	56.7
Canada	1,043,281 02	781,399 06	74.9
Confederation	379,539 00	246,942 00	65.1
National	39,649 71	15,810 04	39.9
Sovereign	8,956 54	13,375 00	149.3
Federal	167,535 17	139,066 04	83.0
Mutual	373,220 29	175,533 49	44.1
Dominion	46,520 83	30,773 50	66.1
Northern	32,063 00	12,433 00	38.8
Great West	183,300 00	105,881 00	57.8
Sun	724,983 92	631,170 82	87.1
Royal Victoria	28,046 16	33,844 90	120.7
Home	30,962 00	15,683 00	50.7
	4,069,762 87	2,931,278 55	69.6

To the net premiums, computed by the same standards as are used in computing reserves, is added an amount estimated to be required to cover expenses, contingencies and in some cases a provision for dividends to policyholders. This is called the 'loading.' Companies compute this loading in various ways.

The companies were required to show, separately, for first year and renewal premiums, the loadings received in 1905. The total sum shown was $3,615,463.96. They were also required to show the year's total expenses, other than in caring for investments; this total was $5,105,630.30, or 141 per cent of the entire loadings received.

If, therefore, the total loadings received during the year had been originally provided to defray expenses only, the whole provision made by the companies for the year's expenses was exceeded by no less a sum than $1,490,166.34. But the loading is not provided for that purpose solely but also to provide for contingencies, such as deficiency in interest, mortality in excess of the provision for same, investment losses, &c., and, theoretically, in most cases for 'profits,' as well

It is a significant fact that not one of the companies kept its expenditure for 1905 within the loadings.

TABLE VII.

Showing ratio of Total Expenses (exclusive of investment expenses) to Total Loading.

Companies.	Total Loading.	Total Expenses.	Ratio.
	$ cts.	$ cts.	p.c.
North American	303,743 69	377,239 90	124.2
Manufacturers	356,386 58	455,992 79	128.0
London	121,816 00	159,272 00	137.5
Excelsior	79,281 34	107,612 03	135.7
Continental	29,359 87	86,766 40	227.4
Crown	30,860 97	74,754 41	242.2
Imperial	147,024 00	252,043 00	171.4
Canada	555,860 65	899,542 85	161.8
Confederation	290,188 00	365,805 00	126.1
National	39,200 91	67,793 59	172.9
Sovereign	15,536 11	54,848 32	332.4
Federal	90,113 02	200,512 61	222.5
Mutual	260,740 46	314,506 02	126.2
Dominion	40,256 38	60,863 62	151 2
Northern	34,275 00	58,355 00	170.3
Great West	170,940 00	254,852 00	149.1
Sun	985,147 87	1,183,340 58	120.1
Royal Victoria	32,158 11	66,207 18	258.8
Home	32,575 00	85,323 00	261.9
	3,615,463 96	5,105,630 30	141.2

But let us make a further analysis and compare the renewal loadings and first year loadings with their corresponding expenditures, separately.

The total renewal loadings received in 1905 were $2,926,178.67, and the total expenses, other than the reported cost of new business, were $1,826,510.41, or about 62 per cent.

This means that, if the expenditure made in respect of new business had been kept within the initial loadings or if no new business had been done at all, the loadings instead of showing a net loss of $1,490,166.34, would have yielded a net profit of $1,099,668.26, available for dividends to policyholders.

TABLE VIII.

Showing proportion of Renewal and Management Expenses to Loading on Renewal Premiums.

Company.	Loading on Renewal Premiums.	Renewal and Management Expenses.	Ratio.
	$ cts.	$ cts.	p.c.
North American	258,185 55	143,753 58	55.7
Manufacturers	291,715 04	128,193 49	44.0
London	102,900 00	95,256 00	92.6
Excelsior	61,286 61	35,827 32	58.5
Continental	21,017 55	17,238 58	82.0
Crown	21,981.52	17,281 27	78.6
Imperial	115,277 00	70,068 00	61.3
Canada	478,101 85	354,112 49	74.1
Confederation	216,608 00	143,445 00	66.2
National	26,238 90	28,898 97	110.1
Sovereign	10,381 36	25,987 83	250.4
Federal	73,056 99	64,462 73	88.2
Mutual	227,566 21	136,422 87	60.0
Dominion	31,588 70	24,270 83	76.8
Northern	25,185 00	22,022 00	87.4
Great West	128,146 00	51,843 00	40.4
Sun	785,846 30	406,031 58	51.7
Royal Victoria	26,812 09	40,063 87	149.4
Home	24,284 00	21,331 00	87.8
	2,926,178 67	1,826,510 41	62.4

The next table compares the cost of new business during the year, $3,279,119.89, with the loadings on first year's premiums received, $689,285.29. The former is 476 per cent of the latter. The net deficiency is $2,589,834.60.

Here variation is due chiefly to relative extravagance or economy. The lowest ratio is 300 per cent, the highest is 797.

TABLE IX.

Totals and Ratios of Cost of New Business to Loadings on First Year's Premiums.

Company.	Loadings.	Cost of New Business.	Per cent.
	$ cts.	$ cts.	
North American	45,558 14	233,486 32	512
Manufacturers	64,671 54	327,799 30	507
London	18,916 00	64,016 00	338
Excelsior	17,994 73	71,784 71	399
Continental	8,342 32	49,527 82	594
Crown	8,879 45	57,473 14	647
Imperial	31,747 00	181,975 00	573
Canada	77,758 80	545,430 36	701
Confederation	73,580 00	222,360 00	302
National	12,962 01	38,894 62	300
Sovereign	5,154 75	28,860 49	555
Federal	17,056 03	136,049 88	797
Mutual of Canada	33,174 25	178,083 15	537
Dominion	8,667 68	36,592 79	422
Northern	9,090 00	36,333 00	400
Great West	42,794 00	203,009 00	474
Sun	199,301 57	777,309 00	390
Royal Victoria	5,346 02	26,143 31	489
Home	8,291 00	63,992 00	772
	689,285 29	3,279,119 89	476

There are many difficulties in the way of a satisfactory solution of the question which these tables present in so startling a form. In the first place the loading, which theoretically provides for a large initial expenditure and a subsequent series of much smaller renewal and management expenditures, is not collected, as to the large initial expenditure, coincidently with the incidence of the expenditure itself; but is, together with the subsequent smaller expenditures, spread over the whole life of the policy, in the shape of a uniform level addition to the net level premium. In any case, therefore, if the loading is not excessive, the company cannot have on hand, with and as part of the first premium paid, the whole provision which the loading has made for the initial cost of obtaining insurance, and must borrow it in some quarter. This is a question quite different from any question of *excessive* initial expenditure. If the initial expenditure is entirely normal and proper, there must still be anticipation, to the extent of the difference between the amount of the normal initial expenditure and the uniform level loading. In time, speaking in averages, the expenditure will be recouped out of the later level loadings, which must not only bear the later expenditures but furnish a sort of sinking fund to make the initial expenditure good.

In the normal condition of things, therefore, first year cost cannot be confined within first year loading.

The alteration of the whole system of loading, so as to make the loading in the first year sufficient in itself, would require to be effected either by raising the initial gross premium or, if the gross premium is left level, by raising the loading embraced within it and correspondingly reducing the net premium. The raising of the gross premium is not practicable, under present conditions, and to lower the net premium is to destroy the whole computation upon which it is based and to reduce the reserve, for a time at least.

There must, therefore, be a borrowing from some source, to be recouped out of subsequent loadings, so long as the initial expenditure exceeds the level loading.

But might it not be feasible to put the whole life insurance agency business upon a new footing, so that the agent, instead of being paid a large initial commission upon bringing in a policy which may not persist beyond the first year, and may, therefore, be a source of loss to the company, should be remunerated according to results, spreading his total remuneration meantime over so long a term at least as the policy may be likely to persist? If this is feasible, the large initial expenditure would be brought down towards the level loading, and the latter would tend towards meeting it. In other words, the expenditure, like the loading, would tend to become level.

Your Commissioners believe that with the co-operation of the companies this may be accomplished. Agents who have been debauched by large commissions and by bonuses and prizes, and who have found it possible to make gifts out of their emoluments in the shape of rebates, may leave a field where more temperate and reasonable methods prevail. Those who remain may not find it profitable to force insurance policies upon persons who do not want them except at a discount, and who want them at the discount so little that they lapse in a year or two. There may not be so large a volume of non-persistent business, and it may require fewer agents to handle that which is wholesome and persistent. But your Commissioners see no objection to the adoption of methods which will produce any of these results or all of them. Everyone professes to reprobate rebating, which includes the issuing of policies at special premium rates, 'stock' policies and other similar devices. The companies can put an end to it if they will. And if it is made to the advantage of the companies to bring their initial expenditures within a reasonable proximity to the level loading, by spreading it over such a term as will insure the persistence of the business for which it is paid out, your Commissioners have no doubt this also will be done.

Can an effective remedy for rebating be found? Penal provisions have not hitherto been found availing, because they do not interest the directors of companies in which the practice prevails. Your Commissioners believe that the managers and directors of insurance companies may be brought to take an interest in stopping the practice, if a

substantial money penalty, say $1,000, to be recovered by any person who will sue for it, is imposed upon every manager and director of a company, any of whose agents, whether with or without the knowledge of the manager or director sued, makes any rebate whatever, in respect of any premium or any part of a premium. No indemnity by the company should be permitted in respect of any sum recovered. Your Commissioners desire to put upon record their strong sense of the inherent evil involved in the practice of rebating, not alone because it marks the extravagant race for business and is an encouragement to the writing of non-persistent and unprofitable insurance, but because in and of itself it is dishonest and unrighteous. Without the serious and real co-operation of those having the direction of insurance companies, your Commissioners do not believe that penalties imposed upon the immediate parties to a rebating transaction will prove at all effective. The managers and directors themselves must be compelled to make the law effective by having the strongest personal inducement to do so. Visiting penalties upon the companies punishes the policyholders. Let the managers and directors be personally responsible for the conduct in this respect of those whom they put forward between themselves and the insuring public.

It is confidently expected that much will be done to cure the evil of excessive first cost by removing some of the conditions under which that excess has arisen. The Commission refers in particular to what is recommended under the headings, distribution of profits and returns and publicity. If the inducement to pile up large accumulations of capital for financial purposes is removed, and if full publicity in respect of expenses and methods of investment is compelled, so that the insuring public is reasonably able to inspect, examine and compare, there will, your Commissioners believe, be greater prudence and economy, and less straining after more or less illusory accretions to the volume of business done.

There remains the further question, from what source should the interim borrowing, incident to the level loading not being immediately in hand to meet initial cost, be made? Before discussing this question some further general observations should be made to clear the ground.

From what source is this borrowing made under present conditions?

Old companies, with a large volume of insurance in force, have borrowed in part from the salvage in loadings on renewal premiums in respect of old policies, amounting on the average to 38 per cent of those loadings, as has been noticed, and in part from other surplus earnings belonging to policyholders. Newer companies, without these resources, have either impaired their capital, or created a fund by way of premium on capital stock, and have, besides, appropriated the earnings of older policies, if any. Several companies are, in consequence, in the position of having deferred dividend policies outstanding, each calling for an accumulation of surplus, but without any accumulation to the credit of any of them, and sometimes with an impaired capital in addition. This is virtually equivalent, unless the condition is remedied, to supplying non-participating insurance at participating rates, which are about 20 per cent higher than non-participating rates, this anomalous condition resulting solely from the excessive expenditure for new business.

The key to the mischief is that what has been earned by and belongs to policyholders is improperly spent; and to avoid this by making provision for what is legitimately required for the acquisition of new business, beyond the initial loading, without unduly trenching upon policyholders' money, is the problem to be solved.

The problem is further complicated by the consideration that old policyholders, whose money is being expended, will in reality be benefited by all new business which is acquired by fair expenditure and becomes reasonably persistent.

Bearing these considerations in view, an attempt will be made to analyse the existing conditions and to arrive at a fair solution.

The new premiums received in 1905 by twelve companies amounted to $2,699,915.68, and the amount paid out of these premiums to agents in commissions alone was $1,676,066.65. The rate of commission, therefore, averaged 62 per cent on

the total first year's premiums collected. In these totals, only those companies' figures are included in which commissions are given separately in the returns to the Commission.

There was considerable variation in the ratio as between individual companies, partly because of differences in economy and partly because some companies provided other compensation, such as salaries or advances.

TABLE X.

PERCENTAGE of first year's Commissions to Premiums on New Business, 1905.

Companies.	Premiums on New Business.	Commissions first year.	Percentage.
	$ cts.	$ cts.	
North American	228,337 88	142,875 42	62.6
Manufacturers	300,764 98	123,920 74	.....
London	32,610 67†	*	.....
Excelsior	68,452 32	23,683 59‡	34.6
Continental	38,535 61†	*	.....
Crown	44,931 06†	*	.....
Imperial	134,990 96†	*	.....
Canada	434,547 93	252,565 22	58.1
Confederation	207,598 23	168,659 00	81.2
National	32,789 30	17,925 26	54.7
Sovereign	26,374 70	7,977 93‡	30.3
Federal	97,016 11	72,569 33	74.8
Mutual	248,543 09	130,754 10	52.6
Dominion	39,511 08†	*	.....
Northern	37,448 81†	*	.....
Great West	175,390 25	124,818 00	71.2
Sun	772,445 60*a*	524,108 25	67.8
Royal Victoria	24,981 38	16,229 81	65.0
Home	40,021 42†	*	.....
	2,617,241 77	1,676,066 65	64.00

* No report.
† Omitted from totals.
a These figures arrived at by deducting present value of bonus additions treated in returns by Company as single premiums.
‡ Compensation largely paid in other forms.

Other compensation, however, such as prizes, bonuses, rewards, allowances, salaries and advances, was paid to agents for obtaining new business, as well as commissions. The total remuneration to agents by these companies for new business amounted in 1905 to $1,994,352.16, which, upon the total premiums for the first year, $2,699,915.68, was about 74 per cent. The impression given by the life insurance agents in their memorial presented to the Commission, that the average was in the neighbourhood of 50 per cent, is therefore erroneous.

Abundant testimony is before the Commission, that, largely in consequence of over compensation, agents give away much of their remuneration in rebates, and probably they do not realize more than 50 per cent on the average, nor so much, perhaps, as they would realize, were the aggregate compensation lower than at present.

Specimen contracts with agents made by the various companies are before the Commission. These show commissions alone ranging sometimes as high as 80 per cent, and very commonly as high as 65 and 70 per cent of first year premiums on the usual policy forms.

The ratios of total remuneration for new business to new premiums received vary in individual companies from 45 per cent to 104 per cent, the variation being due, chiefly, to relative extravagance or economy, but perhaps partly to the failure of some companies to include all items of compensation.

TABLE XI.

COMPENSATION to Agents for New Business and its percentage to Premiums received on New Business, 1905.

Companies.	Premiums in New Business.	Compensation.	Percentage.
	$ cts.	$ cts.	
North American	228,337 88	156,160 66*a*	68.4
Manufacturers	300,764 98	252,048 43	83.8
London	32,610 67†	*	.....
Excelsior	68,452 32	30,671 97	44.8
Continental	38,535 61†	*	.....
Crown	44,931 06†	*	.....
Imperial	134,990 96†	*	.....
Canada	434,547 93	255,897 05	58.9
Confederation	207,598 23	168,659 00	81.2
National	32,789 30	21,425 82	68.4
Sovereign	26,374 70	22,468 93	85.2
Federal	97,016 11	101,252 69‡	104.4
Mutual	248,543 09	147,789 32	59.5
Dominion	39,511 08†	*	.....
Northern	37,448 81†	*	.....
Great West	175,390 25	128,898 00	73.5
Sun	772,445 60	689,473 31	88.9
Royal Victoria	24,981 38	19,606 98	78.5
Home	40,021 42†	*	.....
	2,617,241 77	1,994,352 16	76.2

* No separation in the returns.
† Not included in totals.
a Large amounts in 'other expenses,' not so specified as to enable separation.
‡ Includes travelling expenses.

In their returns to the Commission the companies were also required to include medical examiners' fees and cost of inspection as part of the cost of new business. They were requested, also, to include any other item which they deemed part of such cost. This was variously interpreted, some adding nothing and others including even a part of home office salaries and expenses. Doubtless some rents of branch offices, salaries of supervisors, some advertising and much of the cost of literature and printing would be saved if there were no new business. It is, however, difficult to apportion these charges between old and new business, and in any event they are not so controllable as to rise and fall with the volume of new business. It is pertinent, therefore, to consider what is the direct cost of new business. It is thought that the following answer this description, viz.: commissions on new premiums; other compensation paid for obtaining new business; advances to agents; medical examination and inspection fees.

Taking these elements as making up the direct cost of new business, we have in 1905, $2,187,031.03 against new premiums of $2,631,463.36, or 83.1 per cent.

TABLE XII.

PERCENTAGE of Direct Cost of New Business to Premiums on New Business, 1905.

Companies.	Premiums on New Business.	Direct Cost of New Business.	Percentage.
	$ cts.	$ cts.	
North American	228,337 88	171,521 04	75.1
Manufacturers	300,764 98	289,524 81	96.2
London	32,610 67*	64,016 00‡	.....
Excelsior	68,452 32*a*	71,784 71*a*	.....
Continental	38,535 61*	49,527 82*	.....
Crown	44,931 06*	57,473 14*	.....
Imperial	134,990 96†	181,975 00†	.....
Canada	434,547 93	282,270 14	65.0
Confederation	207,598 23	182,331 00	87.8
National	32,789 30	38,894 62	118.6
Sovereign	26,374 70	24,351 43	92.3
Federal	97,016 11	109,287 69	112.6
Mutual	248,543 09	169,951 26	68.3
Dominion	39,511 08*	36,592 79*	.....
Northern	37,448 81*	36,333 00*	.....
Great West	175,390 25	148,565 00	84.7
Sun	855,119 51	748,032 36	87.4
Royal Victoria	24,981 38	22,301 68	89.2
Home	40,021 42*	63,992 00*	.....
	2,631,463 36	2,187,031 03	83.1

* No separation in returns. Omitted from totals.
† Arbitrarily determined. Omitted from totnls.
a Large amount in 'other expenses' not separated. Omitted from totals.
‡ Includes 'industrial,' while premiums do not.

To this statement of facts it should be added that the cost of new business is now so great that for several years after a new policy is written, its surrender or lapse causes a loss to the company instead of a gain. This is illustrated by Table XIII. The column headed H (m) contains the reserves required to be set apart during the first five years by the present Canadian standard and the other two reserve columns, the reserves according to the minimum standards proposed by the Life Managers' Association and by the Actuary of the Commission, respectively, which will later be fully explained.

TABLE XIII.

SHOWING actual accumulations in certain companies upon whole life policies, after paying actual death claims and expenses, compared with reserves required on different bases.

AGE 35.

End of year.	Accumulations.					Reserves.		
	Canada.	Sun.	Manufacturers.	Imperial.	Confederation.	H (m).	Life Managers'	O (m) Select and Ultimate.
1	—12.46	—4.53	—11.72	—2.89	2.00	12.52	0.00	1.91
2	9.06	13.40	7.43	19.18	21.65	25.88	16.06	17.68
3	30.07	35.51	23.84	41.79	42.12	39.18	32.49	33.11
4	51.61	55.97	43.45	.....	.....	52.77	49.34	47.14
5	73.97	Over H (m)	63.51	.....	.....	66.68	66.68	63.87

In this table actual figures are given with respect to five of the principal companies, during the first five years after a policy is written. It will be seen that only in the case of one company is there enough of the net premium left after paying initial cost of insurance to put aside anything for the reserve required by law, $12.82, and in that case only $2. In all the other cases there is an actual net deficit varying from $2.89 to $12.46. At the end of the second year the reserve required by law is $25.86; but, even if the policy persists and the second premium is paid, the reserve is not overtaken in the case of any company. If the policy still persists and the third premium is paid two of the companies are able to overtake it. If the fourth premium is paid another company then overtakes the reserve, but the other two companies require persistence respectively for five and six years before the reserve is reached.

The variations in table XIII. are, no doubt, due in part to differences in actual experience, but they are also largely due to differences of opinion as to what should be treated as cost of new business.

It is manifest, therefore, that if a policy lapses before its premiums have recouped the initial expenditure it has been carried at a loss to the company, that is, to the policyholders as a body.

A very large percentage of the policies issued under the present high compensation system are either not taken, in which case, of course, the expense of medical examinations and inspection and of the home office in issuing the policy represents the loss, or, if taken, lapse at the end of the first policy year. This was brought out clearly in the evidence and also in various exhibits furnished to the Commission.

TABLE XIV.

SHOWING approximately the ratio of not taken insurance and of insurance lapsed at the end of its first year to new insurance written.

Name of Company.	Issued 1904.	Not taken, 1904.	Per Cent.	Lapsed, end of 1st year, 1905.	Per Cent.
	$			$	
Manufacturers	7,116,136	1,249,740	17	715,557	10
North American	6,337,733	843,046	13	1,096,250	17
Canada	13,043,503	1,846,491	14	1,760,264	13
Northern	1,230,290	28,000	2	436,600†	35
Royal Victoria	817,250	51,500*	6	316,000*	39
National	1,474,594	110,145	7	385,000	27
Confederation	5,017,988	429,257	8	514,775	10
Federal	3,010,499	135,934	4	588,347	19
Great West	5,365,295	1,273,050	24	1,182,800	22
Imperial	4,157,000	649,504	15	941,100	23
Sun	20,907,949	4,617,680	22	3,829,903	18
Mutual	5,040,627	187,540	4	818,350	16
	73,518,864	11,421,887	15	12,584,946	17

Taken from Departmental returns, except 'lapsed,' which is from Company's returns to Commission.
* These are given as accurate; 'not taken' and 'lapsed' of 1904, new business.
† Largely industrial.

It is now proposed, having cleared the ground, and keeping in view the considerations which have been mentioned, to return to the main inquiry, viz., from what source the difference between initial loading and legitimate initial cost should be borrowed until recouped out of the provision for that purpose made in the level renewal loadings.

One suggestion is that the savings upon renewal loadings should be resorted to by adopting the broad rule of limiting total expenditure to total loadings.

There are several reasons why this method does not recommend itself to the Commission.

It is based upon a mistaken idea of the nature and purpose of the loadings. They are intended not only to provide for expenditure or cost, but also to cover contingencies and a provision for profits. To the extent to which they have been provided for these purposes, it is fallacious to treat them as available for the borrowing which is the subject of inquiry.

Besides, the adoption of this rough and ready rule is by no means certain to mitigate the excessive relative cost of new business actually secured. The rule may spend itself in a mere reduction of volume in the new business.

This would tend greatly to the disadvantage of the newer as compared with the older companies. It is quite within the bounds of probability that the older and larger companies, with their large volume of old business, would be able to bring themselves within the limits of the rule without any substantial curtailment of the initial extravagance for which a remedy is sought while the newer companies, without any large volume of old business bringing in renewal premiums with their loadings, would find themselves unduly and unfairly crippled in the legitimate pursuit of new business.

Again, the rule would work to the disadvantage of companies whose premium rates are low.

Two other methods of solving the question were before the Commission. One was recommended by the actuary, and, in connection with another mortality table, was adopted by the New York Committee, and the other was suggested by the Life Managers' Association. Both methods are based upon the fact that the H $^{(m)}$ table of mortality, upon the basis of which Canadian reserves are now computed, requires larger reserves to be set apart during the earlier years of a policy than are needed according to actual mortality experience. Both methods accordingly suggest that advantage should be taken of this circumstance and that the borrowing to implement initial loading should take the form of appropriating, during the policy's early years, the difference between the reserve which the H $^{(m)}$ table requires and the reserve which accords with actual experience.

The actuary of the Commission, Mr. Dawson, who is entitled to be called the author of the method adopted in New York, has recommended taking the British table to which reference has already been made, the O $^{(m)}$ table, in what is known as its select form, treating the reserve so as to take the benefit of selection during the first ten years of the policy, and subsequently treating the reserve upon the basis of ultimate mortality. This is called the Select and Ultimate Method.

The method suggested by the Life Managers' Association is applicable only to cases where the net premium equals or exceeds the ordinary whole life net premium. A deduction is made from the initial net premium equal to the difference between the standard reserves for five years and reserves calculated upon the basis of one year's term insurance followed by four years during which the deduction is made good.

Both methods are really founded upon the theory that the new business is itself the direct cause of the favourable mortality, and that the necessary borrowing may well be made from the gain so resulting.

By Mr. Dawson's method applied to the O $^{(m)}$ Select Table, ten years, instead of five, are allowed to reach the standard reserve, the O $^{(m)}$ table taking account for ten years of the mortality gains. After ten years the reserves are somewhat larger than by the H $^{(m)}$ table.

A glance at Table XIII, will show, in the cases of the companies with which it deals, how reserves provided by these two methods compare with the standard H $^{(m)}$ reserves during the first five years, and with the funds which, having regard to the initial cost, those companies have on hand during the same years for reserve purposes.

To the initial loading, under both methods, is really added an amount representing the mortality gains due to the new business, and the proposal is to limit the cost of obtaining the new business to their sum.

The following tables, XV. and XVI. show how the direct cost of new business for 1905 would have compared with a provision for such cost arrived at by the two methods.

TABLE XV.

COMPARISON of Direct Cost of New Business in 1905 to Provision by Life Managers' method, plus Loading.

Companies.	Provision plus Loading.	Direct Cost.	Ratio.
	$ cts.	$ cts.	
North American	113,794 07	171,521 04	1.51
Manufacturers	162,269 63	289,524 81	1.79
London	35,102 17*	64,016 00*	1.82
Excelsior	51,762 48*	71,784 71*	1.38
Continental	24,926 46*	49,527 82*	1.99
Crown	25,358 80*	57,473 14*	2.27
Imperial	83,361 23*	181,975 00*	2.17
Canada	239,073 10	282,270 14	1.18
Confederation	144,568 79	182,331 00	1.26
National	20,789 01	38,894 62	1.87
Sovereign	15,330 90	24,351 43	1.59
Federal	61,593 03	109,287 69	1.77
Mutual	114,203 58	169,951 26	1.49
Dominion	23,551 48*	36,592 79*	1.55
Northern	26,968 29*	36,333 00*	1.35
Great West	107,341 70	148,565 00	1.38
Sun	458,037 87	748,032 36	1.63
Royal Victoria	19,399 59	22,301 68	1.15
Home	27,427 10*	63,992 00*	2.33
	1,456,401 27	2,187,031 03	1.51

* Omitted from totals. See Table XII for reasons.

TABLE XVI.

COMPENSATION of direct cost of new business to provision by O (m) select and ultimate method, plus Loading.

Companies.	Provision, plus Loading.	Cost.	Ratio.
	$ cts.	$ cts.	
North American	126,791 39	171,521 04	1.35
Manufacturers	180,859 75	289,524 81	1.60
London	38,185 25*	64,016 00*	1.68
Excelsior	58,194 44*	71,784 71*	1.23
Continental	28,085 35*	49,527 82*	1.76
Crown	28,497 72*	57,473 14*	2.02
Imperial	93,192 51*	181,975 00*	1.95
Canada	269,799 63	282,270 00	1.05
Confederation	158,090 47	182,331 14	1.15
National	25,851 31	38,894 62	1.50
Sovereign	17,269 22	24,551 43	1.41
Federal	70,076 27	109,287 69	1.56
Mutual	129,637 74	169,951 26	1.31
Dominion	26,486 43*	36,592 79*	1.38
Northern	30,373 68*	36,333 00*	1.20
Great West	119,636 50	148,565 00	1.24
Sun	507,321 19	748,032 36	1.47
Royal Victoria	21,976 47	22,301 68	1.01
Home	31,072 08*	63,992 00*	2.06
	1,627,309 94	2,187,031 03	1.34

* Omitted from totals. See Table XII for reasons.

The progress of the Reserve during five years towards the Hm standard under both methods is shown in the following table.

TABLE XVII.

MEAN RESERVES BY STANDARDS NAMED, ORDINARY LIFE POLICY, 3½ PER CENT.

	Age—25.				
	1st.	2nd.	3rd.	4th.	5th.
Present Standard	12.19	21.53	31.12	40.88	50.80
Canadian Life Managers'	3.20	14.65	26.44	38.49	50.80
O (m) Select and Ultimate	1.38	13.02	23.88	34.64	45.44

	Age—35.				
	1st.	2nd.	3rd.	4th.	5th.
Present Standard	16.79	29.73	42.91	56.36	70.11
Canadian Life Managers'	4.24	20.12	36.36	53.02	70.11
O (m) Select and Ultimate	3.68	20.03	35.57	50.96	66.39

	Age—45.				
	1st.	2nd.	3rd.	4th.	5th.
Present Standard	24.39	43.41	62.62	82.06	101.77
Canadian Life Managers'	5.89	29.22	52.94	77.10	101.77
O (m) Select and Ultimate	5.52	28.77	51.16	73.24	95.19

The following table exhibits in comparison the provisions made for initial cost by the two methods and compares both with present loading provision.

TABLE XVIII.

INITIAL MARGINS ON WHOLE LIFE PREMIUMS BY EACH METHOD.

(*a*) Being the margins set free by the Methods of Valuation.

	Age 25.	Age 35.	Age 45.
Present Standard	0.00	0.00	0.00
Life Managers'	8.80	12.28	18.07
O (m) Select and Ultimate	12.29	14.95	21.39

(*b*) Total Provision for initial cost, inclusive of Loading on Net Premium.

	Age 25.		Age 35.		Age 45.	
	Provision.	Per Cent of Prem.	Provision.	Per Cent of Prem.	Provision.	Per Cent of Prem.
Present Standard	6.09	29%	7.19	26%	9.00	23%
Life Managers	14.89	70%	19.47	70%	27.07	70%
O (m) Select and Ultimate	18.38	87%	22.14	80%	30.39	79%

Upon limited payment Life and Endowment Policies, the provisions are larger, but the percentage of premiums is smaller.

Your Commissioners are of opinion that the method suggested by the Life Managers' Association should be recommended. It perhaps lacks, theoretically, the scientific accuracy of the Select and Ultimate Method, but its results do not very widely differ. It possesses the merit of requiring the early restoration of an unimpaired standard reserve, and fixes a somewhat higher standard of economy. But your Commissioners would have thought it wise, even if it had not seemed to them to possess these advantages, to fix, if possible, upon a method suggested by the special experience and skill of the gentlemen upon whom will rest the duty of administering it.

The fact that the method recommended confines itself to cases where the premium is equal to or greater than the whole life premium has not escaped notice. The result will, no doubt, be that the early reserves for whole life policies will be less than the reserves for long term policies, for twenty years and upwards. This is anomalous, but having regard to the infrequency of term policies with such long periods, it is believed that they may be disregarded altogether for the present purpose.

Two methods of assuring economy within the proposed limits, are suggested.

One is to rely on publicity, by requiring each company to report annually how much the loading upon new premiums, plus the proposed provisions, amounts to, and, in detail, what the direct cost of new business has been during the year.

The other is to put a limit by statute upon the aggregate cost of new business, confining it to the proposed provision, plus the loadings.

Your Commissioners are of the opinion that both methods should be adopted, the former to afford means of ascertaining that the latter has been complied with, and the latter because even the publicity of this inquiry has not induced an abatement of extravagance.

V.—Investments.

Your commissioners believe it not only expedient, but necessary, to place all life insurance companies upon a uniform and common basis with regard to powers of investment. It is in the highest degree inconvenient that different restrictions upon such powers should exist in the bases of different companies under the same legislative jurisdiction. No sufficient reason has been suggested to the Commission in the course of the inqury for continuing the differences in such powers arising out of special Acts of incorporation. All companies ought to have precisely the same powers, and the powers of all ought to be prescribed in a general Act relating to all.

Under a former head the Commission has stated very fully its conviction that all accumulated funds belonging to policyholders are essentially trust funds. It necessarily results that permissible investments should be confined within such boundaries as may be appropriately delimited for the investment of that class of funds. Speculative investments ought to be excluded, and the trustee directors charged with the

duty of investment should never be permitted to embarrass themselves by considerations arising out of any personal relation on their part to the subject matter of investment. In the course of this inquiry the dual capacity of trustees has been frequently illustrated, and many of the illustrations strongly emphasize the danger which is inseparable from the dual position.

The powers which are at present conferred by the General Insurance Act are, in the opinion of the Commission, sufficiently comprehensive to cover every species of investment which should be permitted.

The propriety of continuing to permit investment in ordinary unsecured stocks may properly be questioned. Section 50 (*b*) makes

> 'the debentures, bonds, stocks or other securities'

of certain companies, including

> 'waterworks company, water-power company, gas company, navigation company, street railway company (by whatever power the railway is operated), electric light or power company, heat and light company, rolling stock company, bridge construction company, harbour trust company or commission, telegraph, cable or telephone company, dock company, fire insurance company,'

permissible investments, though the same section forbids investment in the debentures or bonds of any steam railway company unless its stock has paid dividends for two years. The investments which have come before the Commission have convinced your Commissioners that it is exceedingly desirable that the word 'stocks' should be stricken out of this subsection. Many 'public utility' stocks, or industrial stocks, in modern financial practice, represent no investment of money whatever. The money put into these enterprises is often represented by the bonds only. The stocks are quite unsecured, and not only ordinary creditors, but all bondholders must be paid before holders of stock receive anything. Such stocks are inappropriate as an investment of trust funds. Your Commissioners, therefore, recommend dropping them from the category of investments.

The 4th subsection of the same section should, your Commissioners think, be amended also, so as to drop from the list of permissible investments in the United States the preferred or guaranteed stocks of the same classes of company in the United States.

Another class of security which the Commission deems undesirable is that which arises out of foreign operations by a Canadian company. The latter part of the same subsection gives a description of the investments covered by it by reference to the place of incorporation and not by reference to the *situs* of the property. Thus the Sao Paulo and Mexican securities in which some of the companies have invested are sought to be justified because, though all the operations and property of these companies are in foreign countries, the companies themselves had their birth in this country. Your Commissioners cannot but think that, to all intents and purposes, these are foreign securities, and recommend that this anomaly be remedied by a suitable amendment of the section.

Your Commissioners would have been pleased if they could have seen their way to the framing of an effective provision defining for the future, for all companies, the limits to which they may go in the holding of real estate for alleged head office purposes. The erection of expensive buildings under the guise of head offices, with the real purpose of becoming landlord of extensive office premises, is a thing susceptible of much abuse and conducive to extravagance. Nearly all the instances presented to the Commission have demonstrated the imprudence of permitting funds to be so applied. It does not seem practicable, however, to legislate effectively in that respect.

In respect even of the permissible range of investments, many abuses have, in the opinion of your Commissioners, prevailed. Your Commissioners cannot believe that it was ever the intention of Parliament that, under the pretext of investing in the

securities of 'public utility' corporations, insurance companies should promote such companies and construct and operate their works. Nor can your Commissioners believe that Parliament intended to sanction the acquisition by an insurance company of the whole of or a controlling interest in the capital stock of a trust company, with the intent of managing and operating it as a subsidiary or tributary concern. These enterprises seem entirely foreign to the very idea of investment. The insurance company is authorized to invest only, and not to engage in other businesses than the business of insurance. The possibility of diverting insurance funds from the authorized channels of investment by these means could never have been in the mind of Parliament when the Act was passed. It may not be easy to draw the legislative line, but it seems to your Commissioners that, perhaps, the department may be entrusted with the construction of the Act, and empowered to determine in all cases whether, under colour of the statutory power of investing, the insurance companies are embarking upon or engaging in other businesses than the business of insurance.

VI.—Valuation of Policy Liabilities.

In addition to presently matured liabilities account must be taken of the unmatured obligations arising under policy contracts. These are conditioned upon continued payment of premiums. The ascertainment of the present value of these unmatured obligations is necessary to complete a proper balance sheet.

It is plain that for this purpose two valuations must be made, viz.:—

1. A valuation of the obligations themselves.
2. A valuation of the premiums receivable in respect of them.

The difference between them is the net reserve.

In the valuation schedules required in Great Britain separate valuations of policy-obligations and of future premiums are required, though the difference or net reserve only is entered in the balance sheet. In this country the practice has been to show the net reserve only.

In making these valuations it is necessary to assume a rate of interest at which funds will be accumulated, and also a rate of mortality.

Care should be taken to assume a rate of interest which is reasonably certain to be realized through a long period of time and upon investments of a safe and permanent character.

Your Commissioners are of opinion that 3½ per cent is not too low a rate, when subjected to this test; and voluntary adjustment to even a lower rate is not necessarily over-cautious.

In Great Britain, no rate is fixed by law; but the companies value at from 2½ to 3½ per cent.

In most other European countries 3 to 3½ per cent is the maximum rate.

In Australia 3½ per cent is the rate used by the principal companies.

In New Zealand the Government Insurance Department, furnishing state insurance, uses 3½ per cent and, under expert advice, is proposing a reduction to 3¼ per cent.

In the United States many companies value at 3 per cent for all policies issued after 1900; many others at 3½ per cent. In New York, Massachusetts and Pennsylvania, 3½ per cent is the maximum and 3 per cent the minimum legal rate for these later policies. Policies issued before 1900 are still valued at 4 per cent, which is also the legal maximum rate in several states.

Here the rate is 4½ per cent in respect of policies issued before 1900, and 3½ per cent in respect of policies issued since that year, the values of the former to be brought to a 4 per cent basis by 1910 and to a 3½ per cent basis by 1915. There is no prohibition against the voluntary adoption of a lower basis, and several companies now value at 3 per cent, two having brought the values of their entire outstanding policy

obligations up to that standard. The ability to do this voluntarily indicates strength, while a compulsory reduction in rate might imperil solvency.

The maximum rate, 3½ per cent, fixed by the present law does not appear to the Commission to be either too high or too low; and, in this regard, the present law does not require amendment.

While your Commissioners approve of the maximum rate now fixed, they deem it proper to call attention to the statutory provision which enables that rate to be reached gradually. It is believed that the reason for making the process of raising the reserve standard gradual was not only to prevent a sudden and dangerous disturbance of the finances of the companies from the standpoint of their solvency, but also to prevent disturbance of the interests of policyholders. It is manifest that a sudden transfer of funds from surplus to reserve must interrupt continuity of distribution, and that those policyholders whose contracts mature before the breach has been repaired are not upon an equal footing with the others. Your Commissioners do not, therefore, approve of the drastic course taken by the Canada Life. Its policyholders had a right to expect that the changes prescribed by law would be made in such a way as to cause the least possible affection of their interests and at a minimum of inequality.

Nor do your Commissioners think that companies should be permitted voluntarily to strengthen their reserves beyond the 3 per cent rate. Should a general decline in the rate of interest render such a measure necessary, the cause will affect all companies alike, and general legislation should be had.

With regard to the table of mortality to be employed in the valuation, your Commissioners see no sufficient reason for recommending any change. The H^m table, whose origin has already been explained in that part of the report which treats of expenses, has recently been demonstrated to provide a reasonable margin of safety. The more modern O^m table takes account of the more favourable mortality which is found to exist in the earlier years of a policy, and covers a larger experience than that upon which the H^m table is based.

On the other hand, existing Canadian policies have been valued by the older table, and valuations so made ought not, in the opinion of your Commissioners, to be disturbed, so long as they provide adequate reserves.

Additional reserves, to bring the company's total reserves up to the standard voluntarily adopted by it (which must not, however, be higher than net reserves for all policies on a 3 per cent interest basis) should be returned separately.

Suitable provision should be made enabling companies to set apart additional reserves in respect of tropical and sub-tropical business and impaired life business, in all of which higher rates of mortality prevail than those found by the Hm table.

Annuities should be valued upon the basis of the British Office Life Annuity Table of 1893.

VII.—Lapse and Surrender Values.

Most Canadian companies now make some provision by which policyholders in case of lapsing are entitled to a continuation of the insurance for a period which is fixed by relation to the policy's reserve. This provision is usually spoken of under the name 'non-forfeiture.' Some companies, however, require action by way of application or notice on the part of the policyholder to bring the provision into operation. Others make the provision work utomatically. Your Commissioners are of opinion that all insurance hereafter written should contain the provision, and that the benefit of it should not depend upon action by the policyholders.

Every policy should set out upon its face in tabulated form what the company will do by way of loan value, cash surrender value, paid-up insurance value or continued insurance value, in both forms hereinafter referred to, after any number of premium payments, and the lapsing policyholder should be entitled to elect between the cash surrender, the paid-up insurance and the continuance of insurance in either of the methods about to be described, shown by the table. The policyholder should

make his election within a time to be fixed and, in default of election, should have the benefit of the continued insurance provision in the table, in that form of it which is recommended.

Two forms of automatic continuance of the insurance have been brought to the attention of the Commission. One provides for continuance as non-participating paid-up insurance for a given term, without the privilege of resuming payment of premiums save on proof of good health. The other provides for continuing the original insurance, with all its rights, including participation and the right to resume payment of premiums. Both forms provide for advancing premiums so long as the conventional value will permit. The latter form is more general in Canada, and your Commissioners recommend it for adoption, as the provision which is to be operative if no option is exercised by the policyholder.

Tables similar to those incorporated in the standard policies prescribed by the recent New York legislation, with the modifications necessary to carry out these recommendations, are recommended.

VIII.—Standardization of Policies.

The Commission has been impressed by the confusion arising out of the multiplicity of policy forms in use and by the sometimes misleading titles and contents of many of them. A return to methods more simple, intelligible and conducive to clear comparison seems to the Commission desirable. It is believed that, apart from industrial insurance, the ordinary whole life policy, the limited payment life policy, the endowment policy, and the term policy may be made to embrace all the classes of insurance necessary to a healthy system. All policies should be made incontestable, save for discontinuance of payment of premiums, after a reasonable period of time, the expiration of which should also conclude the company with regard to the age of the assured. The table of values mentioned above should be incorporated into the different policies by a suitable policy provision, and there should, in all participating policies, be an appropriate obligation to make good the policy's share of profits in cash or bonus addition at the option of the insured. Your Commissioners would advise excluding from all policies issued by foreign companies to persons residing in Canada any provision intended to deprive the insured of his resort to the Canadian courts to enforce his policy rights.

There should be an opportunity given to companies to obtain the standardization of other forms of policy than the five which are now recommended, upon establishing the expediency of such standardization. The Insurance Branch may be authorized to standardize such other forms upon proof of expediency, but without departure from any of the principles upon which the standardization now recommended is based.

IX.—Distribution of Surplus.

Your Commissioners have given this subject much anxious consideration. The insurance managers are earnestly opposed to any amendment of the law looking towards curtailing the volume of deferred dividend business. and they appear to view the suggestion of a compulsory distribution, at more frequent intervals than quinquennially as revolutionary and destructive. On the other hand these surplus funds are, as already pointed out, trust funds and belong to the policy-holders. Annual distribution is the ordinary rule of commerce, and the retention of earned surplus has, as shown heretofore, a direct relation to the principal abuses to which attention has been called. In New York annual distribution is now required in respect of all new contracts of insurance. In Massachusetts not only is annual distribution for the future made an essential feature of the report of the State Commission, but in respect of outstanding policies an annual, binding interim apportionment is insisted upon. The Chicago Conference of Governors, Attorneys General and Insurance Commissioners pronounced in favour of an annual distribution.

The Commission appointed by the Governor of Indiana reported that the surplus should be paid out annually. So did the Joint Committee of the Senate and Assembly of the State of Wisconsin.

The treatment of policy-holders entitled to the benefits of deferred dividends has been shown to the Commission to be capricious, unfair and unequal in many cases. The freedom from liability to account at stated periods has created a confusion of ideas as to the ownership and purpose of accumulations upon deferred dividend policies. There has been manifest a tendency to divert these accumulations from their original purposes and to apply them to alien purposes. They have been utilized in maintaining the fierce struggle for new business or as funds providentially in hand for purposes of speculation.

Your Commissioners recommend the prohibition of insurance contracts which provide for distribution otherwise than annually. With regard to outstanding contracts which so provide, there should be prescribed an annual, definitive ascertainment and allocation of profits, and each policyholder should be advised yearly exactly what has been carried to the credit of his policy.

With regard to all the business issued after the law becomes operative, which will thus be upon the basis of an annual payment out of surplus, all surplus earnings for the year attributable to it should be annually distributed in cash or bonus additions, save such sums by way of contingent or safety fund as may be necessary to prevent embarrassment and undue fluctuation.

Your Commissioners desire to point out that annual distribution is the fairest and most advantageous plan for the average policyholder. It cheapens his insurance and furnishes him with the only true index of what it costs him. It puts him upon the same commercial footing that mercantile practice puts him upon in other business relations. It simplifies the accounting with him by the insurance company and brings his real insurance asset before his eyes in a clear and distinct shape.

The remedy recommended should be reinforced by appropriate requirements in the returns made to the Insurance Branch, so that the methods followed in ascertaining, apportioning and distributing surplus may be subjected to criticism.

There should, besides, be legislation enabling the Attorney General for Canada to maintain actions in respect of the accounting made by the companies, in the interest and for the benefit of the policyholders entitled, so that there may be not only departmental criticism, but also judicial determination of the propriety of the methods of apportionment and distribution adopted.

X.—Returns and Publicity.

There is a general agreement that there should be a marked advance in the degree of publicity to which insurance business is exposed. And it is conceded by the companies themselves that a larger measure of public information with regard to their affairs than now exists would tend towards more efficient and honest management and greater economy, and would stimulate that healthy competition which is one of the prime safeguards of the insuring public.

The majority memorial from the Life Managers' Association submits, in this view, a form of annual return to the Department of Finance which includes the most minute details of the business carried on.

On the other hand, the minority memorial, which is exclusively signed on behalf of British companies doing Canadian business, advocates a complete change in the methods and substance of the returns, asking that they be placed upon such a footing as to disclose a true revenue account and a true balance sheet, prepared upon the principles governing the returns of British companies to the Board of Trade under the Imperial Act of 1870. This, it is said, will enable a company's true position, not only with regard to its invested assets, but also with regard to its policy obligations, to be ascertained by accountants and actuaries with scientific precision.

This report, in another part, points out the fundamental difference between the function of the Board of Trade return and the return required by the Canadian law. The former is not followed by, and is therefore not framed to facilitate, actual examination of and inquiry into the workings of insurance companies, and their results to policyholders. It is rather framed for the purpose of enabling skilled actuaries to make scientific deductions from the return itself, without having any access to its book-keeping and actuarial bases.

The Canadian return, on the other hand, is intended to perform a fundamentally different function. It is to be followed up by independent expert examination of the sources from which it is compiled, and is therefore framed to serve the purpose of facilitating such examination, rather than the purpose of enabling expert conclusions to be reached without it.

Your Commissioners are advised that the form of return at present prescribed lends itself to the facilitation of the subsequent examination in a higher degree and in a more practical way than the Board of Trade return.

The Canadian law requires a public official valuation of the policies in force at stated intervals. This requirement seems to your Commissioners to make it of less importance that the return should in itself provide all the factors for such a valuation, than that it should make the examination of the financial standing of the different companies in respect of their investments, expenses and profits capable of being made more simply, easily and expeditiously.

Your Commissioners are of opinion, however, that it would be wise to amend the law so that the prescribing of any precise form may not hamper the officers of the Insurance Branch when, for any reason, the form falls short of furnishing the full information desired. The form should itself be elastic, and the provisions regulating its use still more elastic, enabling those charged with the duty of acquiring information to supplement authoritatively the prescribed form in any case where it does not elicit all necessary and desirable information. Elasticity in practice is more to be desired than an impossible accuracy in foresight and a prescription along unyielding formal lines.

Nor is it unreasonable that more interim information than is now given upon the important subject of valuation should be furnished in the returns. Your Commissioners are of the opinion that the valuation made by the officers of the Insurance Branch should be made at least every three years, instead of at least every five years, as the statute now provides. The returns should include such information as will enable the officers, in the intervals between such authoritative valuations, to detect any departure from the principle upon which the valuation is made, and any failure to maintain reserves in accordance with it. Provision for this is made in the amended form of return recommended by your Commissioners.

Your Commissioners are not favourably impressed by the multiplicity of detail in the return suggested by the majority memorial of the Life Managers' Association. This greatly adds to the volume of the return, and seems to be unnecessary if the powers of the officers of the Insurance Branch are so widened as to enable them to insist upon details to any necessary extent in particular cases. Certain additional details in respect of some items are suggested in the amended form of return accompanying this report, for reasons which the amended form itself sufficiently indicates. Beyond these additional details your Commissioners see no reason for increasing the volume of the return by minute subdivision and classification.

The most important among the additional details suggested, omitting additions called for by new and substantive recommendations affecting principle, is the more minute classification of premium income. Items 1 to 5 in Part IV. of the return, headed 'Income during the Year' have been recast and subdivided so as to furnish more detailed information.

It is considered desirable that the return should furnish such information as will enable the officers of the branch to maintain an effective check upon the expendi-

ture for new business, so that it may be readily ascertained whether the companies have kept within the margin permitted by the amendment recommended under the heading 'Expenses' in this report. This also is expected to be accomplished by the alterations recommended, which require the first year loadings to be ascertained and returned. The greater amplification of the general items of expense which will be found in the amended form will greatly facilitate this verification.

Perhaps the most important alteration in form which is recommended is that which is made necessary by the yearly declaration and payment of profits in respect of new business, and the yearly ascertainment and allotment of profits in respect of existing business.

It is desirable that the principles which have governed the management in the ascertainment and distribution in both classes of business should be clearly disclosed, and that the amounts so ascertained, where not actually paid, should be carried among the liabilities in a separate item, capable of being readily traced in subsequent years. This, it is believed, will be amply provided for by the amended form recommended. The calling for illustrations of dividends declared and for information with regard to the methods of computation employed, your Commissioners believe will serve a most useful purpose.

The methods of some of the companies examined have made it important that the annual examination should strictly follow all the movements of securities during the year. Your Commissioners have provided for this by another and separate return accompanying this report, which it is recommended should be required quarterly, under the same penal sanctions as pertain to the main return. It is not believed that any irregularity in the making og investments can successfully be concealed if this quarterly return is made compulsory.

XI.—The Insurance Department, its Powers and Duties.

The minister within whose department the subject of insurance falls is the Minister of Finance and Receiver General, and the Insurance Branch of his department is his insurance executive. The statute provides for the appointment of a chief officer of the branch, with the title 'Superintendent of Insurance,' and his position and duties are elaborately defined. The appointment from time to time of officers and clerks under him is provided for.

The duties which he is required to discharge are to some extent of a routine and clerical character. He is to keep a record of the documents which companies are required to file in the Superior Courts of the different provinces for the purpose of giving those courts jurisdiction over the subject matter of their contracts of insurance. He is to keep entered in the books of the branch the securities which the companies are required to deposit with the minister, their par value and the value at which they have been received on deposit. He is to keep a record of the licenses issued. He is to ascertain and levy upon the companies a rate to provide for the expenses of his office.

But his duties are not all of this character. He is required to report to the minister before the issue and renewal of all licenses whether the companies have complied with the requirements of the law and whether they appear, from the statements of their affairs furnished, to be in a condition to meet their liabilities. He is to visit the head office of each company in Canada at least once each year to examine, check and verify the elaborate returns made to the department by each company, and to report the results for the information of the minister, specially calling to his notice all matters requiring his attention and decision, showing full particulars of the business of each company, and he is besides, to classify the various branches of insurance, collecting and tabulating items, so that his report may be in the most useful form for presentation to Parliament, which is its ultimate destination.

He is clothed besides with substantive powers of examination into the condition and affairs of insurance companies, in addition to those given him in connection with the yearly visit made to check and verify the returns. If, and whenever, as a result

of his regular examination, or from any other cause, he deems it necessary to make a more complete and thorough investigation, and so reports to the minister, the latter may instruct him accordingly, whereupon the books of the company under suspicion are opened to him, the officers of the company are bound to facilitate his inquiry to the utmost, and he is given power to examine them upon oath. The result of this inquiry also is to be the subject of report by him, and he is required to form and state his opinion as to the standing and financial position of the company examined and all other matters desirable to be made known to the minister.

In the pursuit of his important powers of inquiry he may be sent by the minister to the office of a foreign company doing business under Canadian license, and there may demand the fullest disclosure, under penalty of withdrawal of that license.

When the superintendent, as a result of the examinations made by him, thinks the assets of any company insufficient, according to the statutory requirements, to justify its continuance of business, or that it is unsafe for the public to effect insurance with it, he must report specially to the minister, and his report may be followed, if concurred in by the minister, by government cancellation or suspension of license.

Perhaps there is no function with which he is charged more important than the valuation of policies. This he must now do at least once in five years in the case of all policies of Canadian companies and all Canadian policies of British and foreign companies. By this means he is expected to make an authoritative adjudication upon the solvency of Canadian companies and the solvency by reference to Canadian assets of all other companies in respect of their Canadian obligations. On the one hand, his proper performance of this duty may be followed by consequences of the most serious character to the insurance companies, and, on the other hand, its negligent or perfunctory performance may be disastrous to the insuring public.

In this, as in other matters to which reference has been made, the superintendent, therefore, stands between the public and the companies in a more intimate and relevant fashion than the minister himself, whose hand and conscience he is. The present superintendent, Mr. Fitzgerald, has occupied the position since 1885. The work of examination and inquiry into the affairs of insurance companies by him and his staff has been conducted in some respects rather as a check than as an audit. Viewing it from this standpoint, it has frequently been effective, though many improprieties have remained undiscovered. Irregularities typical in their nature, such as unauthorized investments, irregular loans, the writing up and down of securities and the making of fictitious entries at the end of the year for the purpose of suppressing transactions in the returns, have not escaped notice and criticism, and have, when discovered, been efficiently dealt with.

In dealing with those irregularities in investment and other financial improprieties which have been discovered in the course of his examinations, the superintendent has frequently acted with firmness, and pressure from him has sometimes resulted in bringing directors to the admission and rectification of these improprieties. He has not felt himself at liberty in this class of cases to recommend the drastic remedy of withdrawing, suspending or declining to renew the license, notwithstanding the provisions of section 25 (4*b*), which provides among other things that before any license is renewed he must have reported that 'the requirements of the law have been complied with,' and of section 25 (5), which authorizes him to thoroughly inspect and examine into all the company's affairs and make all such further inquiries as are necessary to ascertain.

> 'whether it has complied with all the provisions of this Act applicable to its transactions.'

He was advised by the Department of Justice in 1894 that the remedy of withdrawing, suspending, cancelling or declining to renew the license was, upon the proper interpretation of the Act, confined to cases in which the liabilities exceeded the assets, or the assets were insufficient to justify continuance of business, or it had become unsafe

for the public to effect insurance with the company, thus practically limiting it to the case of insolvency. By the opinion then given the practice of the superintendent has since been guided, and he has often been cautious in asserting himself when questions of difficulty have arisen, believing himself to be denied in this and other respects, powers which he thought it desirable he should possess.

Your Commissioners in the early stage of the departmental inquiry were apprehensive that the result of the restriction placed by the opinion of the Department of Justice upon the practical remedy of dealing with the license itself in case of company misconduct might have been to make the superintendent and his officers more or less apathetic in dealing with those improprieties as to which they believed themselves to be without effective check. It was with some satisfaction, therefore, that your Commissioners observed, as the inquiry proceeded, how these improprieties when discovered were dealt with, and the considerable success which was achieved.

It will, your Commissioners believe, be useful to so amend the Act that the effective remedy of suspension or withdrawal may be made capable of judicious application to improprieties which do not involve insolvency. The wilful or careless overstepping of investment landmarks, and other improprieties which are instanced in the reports upon individual companies, have become too general to be permitted to continue, and the liability to temporary suspension of the right to do business will, your Commissioners believe, operate as a wholesome incentive to the avoidance of these practices.

It is hoped that the substantial widening of the superintendent's powers to elicit information which is recommended, and the additional requirements of the amended returns suggested, will make the work of the branch increasingly effective.

The actuarial work of the department has, the Commission is advised and believes, been admirably done. Mr. Fitzgerald, though familiar to some extent by practice with questions of pure insurance, is not himself an actuary. The professional members of his staff, however, Mr. Blackadar and Mr. Grant, both of whom were examined before the Commission, appear to be actuaries of much skill, and with entire honesty of purpose. The Commission believes their actuarial work in the valuation of policies and otherwise has been well done.

The provisions made in various parts of the Act for dealing with licenses by way of cancelling, withdrawing, suspending or refusing to renew them might perhaps be consolidated and somewhat simplified. There are no less than three different provisions of the kind, all predicated upon the existence of a state of insolvency. They are section 10, section 25 (8) and section 25 (10). These might, it is believed, be brought together in a single plain provision. This may, however, be more conveniently dealt with by the department when the Bill is under consideration.

The Commission finds a similar multiplicity of tribunals which may deal with the license. Under section 10 it is the Minister; under section 25 (8) it is the Governor in Council, and under section 25 (10) it is the Treasury Board. This might also be similarly dealt with if deemed expedient.

Your Commissioners think it desirable that there should be given to the superintendent a somewhat wider power than he now possesses in respect of inspection of the offices of companies whose origin is British or foreign. His powers in that respect, which now depend upon section 25 (11), do not seem so complete as his powers in respect of Canadian companies, which depend upon sections 25 (4), 25 (5) and 25 (6).

In respect not only of real estate owned by companies, but also of real estate upon which mortgage loans have been made, the superintendent should have power to check the returned valuations by independent appraisement in cases where for any reason it is deemed expedient.

There should, your Commissioners think, be more power vested in the superintendent, without necessarily referring to the minister, in respect of varying or supplementing the forms prescribed for returns. In matters of detail there should be the utmost elasticity in moulding the forms to meet variations in practice in different com-

panies, differences in bookkeeping and other matters which may interfere from time to time with the applicability and usefulness of any particular form. It should not be necessary for the superintendent in dealing with this class of details to await the ruling or direction of the minister.

The work of the branch is large and growing rapidly, and the adoption of the suggestions made in this report will very considerably increase it, and your Commissioners recommend that the growth of the staff should continue to keep fully abreast with it.

Throughout this report the references to the Statute are to the Insurance Act as it stood before the revision which came into force on January 31, 1907.

XII.—Fraternal Societies.

The part taken by fraternal or benefit societies in the history of insurance is an important one. The elimination from their constitution of all questions of profit and many of the larger questions of expense has enabled them to appeal to classes which the regular insurance company could never reach, so cheapening the cost of insurance as to bring its advantages home to the humblest. They have done much to alleviate distress in the assistance they have given to the families of their members. They have collected large funds and distributed them among those whose necessities were greatest. The social element in them has made for the betterment of their members in many ways. They have grown into the life of the country and are a part of its development and progress.

It is, therefore, important to examine carefully the principles which underlie their operation, to ascertain with all possible accuracy the results which persistence in those principles may be expected to involve, and, with cautious firmness, to do whatever is possible to strengthen their position and widen their sphere of usefulness.

In the first place, the insuring of human lives is a business, and cannot be successfully carried on by selling the commodity in which it deals at less than cost. In the next place, it is unsound economics to credit part of the price which one customer pays upon the account of another customer. Upon the application of these two propositions depends the solution of the problem presented by the history of these societies. In so far as they have been selling insurance at less than its real cost, in so far as they have been depleting the provision made by one policyholder for the cost of his insurance in order to eke out the inadequate provision made by another policyholder for the cost of his insurance, they have built upon foundations of sand, and the edifice must fall. What does the evidence before the Commission establish in these two respects?

Given a reliable mortality table and a rate of interest which may be depended upon, the average cost of insuring a life and what that cost is during each year of protection are matters capable of accurate demonstration. When level premiums are fixed to represent the whole cost, it is clear that they must be so computed as to provide in the early years, when mortality is low, a surplus to make good the loss due to higher mortality in the later years. The cost of the insurance grows year by year from a point below the amount of the level premium to a point above it, and the function of the level premium is to accommodate the variation. It is clear that it is essential to the proper exercise of this function that the saving while the cost is below the premium, should not be diverted to other purposes. For example, if old members whose insurance has crossed the line, are paying at level rates which were originally inadequate to provide the compensating saving, it will not be sound business to use the saving on premiums of others to help out the cost of their insurance. Nor will such a use of it do more than postpone the inevitable end. The influx of new members can never, in practice, overtake this waste. As new members become old and their savings, already diverted, are called for to provide for the cost of their own

insurance, new members in a ratio constantly increasing, must be found in turn to sacrifice their early savings.

The rates charged by these societies were never based upon any scientific computation of the cost of insurance, and when compared with rates computed upon any known experience have always been found inadequate. The attempts to better this inadequacy by raising the rates have not been permitted to extend to old members, in the case of any society except the Ancient Order of Foresters; and the rates for new members, themselves inadequate, have been rendered doubly so by the greater inadequacy of the rates of older members.

The mortality table to which the name of the National Fraternal Congress has been given has very recently been under review at the instance of that body. The experience of forty-three friendly societies was examined, of which sixteen admitted men only to membership, four admitted women only, and the other twenty-three admitted both men and women. The numbers of persons and the exposures were as follows:—

	Members.	Exposures.
16 societies admitting men only	2,083,020	2,128,410.0
4 " " women only	358,545	348,228.0
23 " " both men and women	401,653	403,528.5
Totals	2,843,218	2,880,166.5

The work of deducing the death rate appears to have been carefully and skilfully performed, having been in the hands of Mr. Landis, whose professional experience among friendly societies makes his work of peculiar value. Four per cent was the rate employed in computing premiums therefrom.

A comparison of the net premiums deduced, with those fixed by the National Fraternal Congress tables, shows that the latter are slightly higher for all ages up to 35. At age 36 the forty-three societies rate is $17.25, while the N. F. C. rates is $17.24. From ages 37 to 50 the forty-three societies rate rises above the N. F. C. rate by small gradations from year to year, being four cents higher at 37 and $1.60 higher at 50. After 50 it rises more rapidly, reaching a difference of $5.04 at 70.

The object of this inquiry into friendly society experience was to test the reliability of the N. F. C. table and the adequacy of the rates deduced from it. The conclusion of the Committee, in its report to the National Fraternal Congress, was that

> 'the N. F. C. table of mortality is an acceptable and adequate minimum table, which will produce rates of contribution sufficient to cover the cost of death benefits as promised by the societies of this Congress, while in a normal condition.'

This conclusion recommends itself to your Commissioners. If the N. F. C. table should not be left the official table of the Congress, but should be readjusted to the variations found in the forty-three societies' experience, the result would be, upon the whole, less favourable to the older members of the societies valuing by it.

In the portion of the report dealing with individual societies, the rates charged by all but the Independent Order of Foresters and the Ancient Order of Foresters have already been compared with the N. F. C. rates. The present rates of the Ancient Order of Foresters have not been compared because that society now maintains a reserve on the statutory basis.

It must be remembered that wherever the comparison shows an increase in the rates charged by the societies that increase left members already paying the lower rates quite untouched.

The members of the Independent Order of Foresters, for example, who became members before the change in 1896, mentioned in a former part of the report, remained and still remain members upon the rates of 1881. And the same observation applies to all the other societies whose rates have been so compared.

Even if, therefore, the present schedules of rates in force were in themselves adequate, the practice in the societies still permits the depletion of the early surplus which they provide, to make good the losses occasioned by the insufficiency of the rates, which old members pay, to cover the cost of carrying their insurance.

This seems to be a condition against which no headway has yet been made in the societies themselves. The old members maintain their ground, being more concerned to keep a firm hold upon their own too cheap insurance than in the general welfare of the societies at large.

In connection with the Independent Order of Foresters, Mr. Grant, of the Insurance Branch, made a most valuable actuarial comparison between the condition of that order's surplus funds and its policy liabilities, as well as an examination of the influence of alleged high lapse or secession rate upon the adequacy of the premiums charged. This work was done at the instance of the Commission, with a view to ascertaining the soundness or otherwise of the contention advanced by the Supreme Chief Ranger. Similar comparisons have already been made in regard to the other societies. In the case of this particular society the work was made more difficult and complicated by the circumstance that the age 70 is, by this society's contracts, conventionally fixed as a period of total disability, at which the payment of the sum insured begins, a factor absolutely neglected in fixing the level premium. At their highest mark, since 1898, the society's premiums may be summarized according to Mr. Grant's careful figures, and compared with the premiums required by the N. F. C. table, as follows:—

Age.	I. O. F.	N. F. C.
20	9.12	11.82
25	10.72	13.83
30	13.00	16.52
35	15.73	20.14
40	19.15	25.14
45	23.71	32.27
50	33.06	43.03

But many members of this society are still paying upon the old rates, the comparison as to them being as follows:—

Age.	I. O. F.	N. F. C.
20	7.07	11.82
25	7.64	13.83
30	8.21	16.52
35	8.89	20.14
40	10.03	25.14
45	11.63	32.27
50	16.53	43.03

These comparisons are typical, both with regard to actual deficiency in the highest rates and with regard to the greater deficiency of old members' rates, of all the societies under consideration.

Mr. Grant further illustrates, in the most striking fashion, the inadequacy of the old rates by showing, in comparison with them, what premiums would be required to defray the actual cost of carrying the insurance if no deaths at all occurred in the society before 70 years of age, at which date the benefits begin to be paid :

Age.	I. O. F.	No deaths before 70.
20		
25		
30	7.64	6.83
35	8.21	8.70
40	8.89	11.23
45	10.03	14.75
50	11.63	19.86
	16.53	27.78

Mr. Grant also compared the actual mortality of the society from 1894 to 1898 with the N.F.C. table, with the result that a striking agreement was shown.

The influence of lapses or secessions in lowering the necessary premium rate, so much relied on by the societies, especially the Independent Order of Foresters, was also carefully considered by him. He shows that the large proportion of lapses occur during the first two policy years, and a very small proportion after the sixth year. He illustrates the persistency of the old membership from the records of the society. The result is shown to be that, inasmuch as a large proportion of the total gain from lapses is realized in the earlier years, the net result is not to lessen, but to increase, the amount necessary to hold in reserve.

Mr. Grant made four valuations upon different tables the O (m) table, with lapse, the same table, without lapse, the Canada Life Select (or Hunter) table, with lapse, and the N.F.C. table. The lapse rate was in each case by the society's own experience. The reserves computed upon the basis of the N.F.C. table were the lowest. Upon that basis, the present value of the society's policy obligations above the present value of its future assessments or premiums is $58,843,728. To meet this obligation, the society has an adjusted surplus of $8,817,653.38.

Your Commissioners look upon the most recent declaration of Parliament in the incorporation of friendly societies as an indication of the policy of Parliament upon the subject now under discussion. In 1898, when the Ancient Order of Foresters was incorporated as a friendly society, its incorporation was only permitted upon terms of maintaining the statutory legal reserve, which involved the collection of premiums or assessments sufficient to enable such reserve to be established and maintained.

They also consider that the experience and history of that society under the parliamentary requirement indicate the wisdom of the parliamentary policy.

The stability of these useful bodies ought to be legislatively assured, and the only method of securing and maintaining that stability known to the science of insurance is to forbid the making of contracts below actual cost.

That the cost of friendly society insurance is less than the cost of what is sometimes called 'old line' insurance may properly enter into consideration when dealing with the question of what actual cost is, but it cannot affect the principle which your Commissioners offer for legislative recognition. It is believed that the adoption by Parliament, for the future business of these societies, of the National Fraternal Congress table, with the rate of 4 per cent, will give to their future business the stability which their wide and useful operations merits.

With regard to their present business and assets, considerations of some difficulty present themselves. The effect of calling peremptorily upon the old membership to re-enter their societies at the new rates and at their present ages would, no doubt, be to precipitate a large volume of lapses, and to deprive many persons of the insurance protection for which they have been paying, though inadequately, for many years.

On the other hand, it is not equitable that members hereafter joining and paying rates just equal to actual cost should have their rights affected and their protection imperilled by the needs of those whose provision may prove inadequate.

Your Commissioners are also impressed by the inexpediency of legislation for the alteration of contractual rights.

Upon the whole, they recommend that friendly societies be required for the future to issue all policies at such rates as will enable them to maintain reserves computed upon the N.F.C. table of mortality at the rate of 4 per cent, and to keep reserves of all adequate rate business absolutely separate and distinct for the exclusive benefit of policies upon which adequate rates are collected.

Should their present members desire to bring their insurance within the new legislative provisions, they should be permitted to do so upon paying the new rates for their attained ages, reduced by giving credit for their respective shares in the old fund.

Should they prefer to continue upon the old rates, they should have the option of doing so, retaining their insurance for such sums as those rates and their respective shares in the old fund will purchase at their attained ages, at the new rates.

They should, if they prefer it, have the right to maintain their policies by paying the new rates for age of entry, making good the difference between their respective shares in the old fund and their respective shares in the new reserve by liens upon their policies, upon which interests should be payable annually.

If they prefer to discontinue the insurance altogether, they should receive paid-up policies for their respective shares of the old fund.

These are substantially the options offered by the Ancient Order of Foresters after its incorporation on terms requiring the legal reserve to be maintained.

There should be a further option, in the opinion of your Commissioners. A term rate for the whole amount of insurance, for the number of years between the member's attained age and the age 65, should be computed upon the prescribed basis, giving credit for the member's interest in the old fund, and he should be permitted to take a term policy accordingly, but this option should involve a fresh medical examination.

These options furnish the best means which your Commissioners are able to suggest for minimizing the disturbance of interests which an increase in rates may cause, and for securing the full benefit of the present funds to those to whom they belong. It would be, however, entirely proper to leave these details to the societies themselves.

XIII.—State Insurance.

This is part, and only a part of a large, important and difficult subject. There is in most countries a growing tendency, in respect of enterprises involving public or quasi-public service, towards nationalizing or municipalizing them or otherwise putting them on the footing of being oeprated by and for the public. The post office, telegraph, telephone, transportation, banking, water and lighting services have all been somewhere and at some time made the subject of this extension of the governmental idea. In New Zealand, where the insurance of lives by the state has proved to be successful, practically all services of this kind are also in the hands of the state, and state insurance instead of taking an anomalous position as a state enterprise among private enterprises, finds its legitimate and natural place among other state enterprises. In this country the post office is the only type of exclusively governmental public service, though public ownership has extended into the domain of banking and transportation, while municipal bodies are working towards the ownership and operation of public telephones, waterworks, lighting and power plants and electric street railways.

The only instance of the successful insurance of lives by the state of which the Commission has information is in New Zealand. There it is a part of a carefully devised system by which all public utilities are operated by the state. And it has been successful because it has been carried on by means of the same aggressive agencies as if a private corporation were behind it. Agents are employed to push business and canvass risks. The advantages of the contracts offered are widely advertised, and in

all respects the state conducts the life insurance business upon the same principles and under the same conditions and rules as if it were a well managed and enterprising private corporation.

Your Commissioners are of opinion that at the present time and under present conditions it is not expedient for the state to take up the business of life insurance.

Apart from the fact that the companies now fully cover the field, there are many problems in state ownership still to be solved, pertaining to what are public utilities in a broader and more vital sense than life insurance, and the solution of these may be safely awaited.

Giving life insurance a place in a harmonious general system, involving the exclusive public ownership of a comprehensive group of public and quasi-public services, would present an entirely different question.

XIV.—Contractual Uniformity Throughout Canada.

The policy of the Dominion Insurance Act is to exempt from its operation companies of provincial origin whose business is confined within the limits of the province of origin, and the Commission understand that with regard to such companies legislation by the Dominion restricting freedom of contract would be ineffective.

With regard to companies which are incorporated by Parliament, the Commission understands that no such question arises, and that for such companies Parliament may effectively lay down contractual rules.

With regard to British and foreign companies, they may theoretically confine their Canadian business to one province of the Dominion or they may extend it into two or more provinces. As some of the provinces issue licenses authorizing the transaction of insurance business within their respective limits, it may be that where such British or foreign company confines its Canadian business to a single licensing province, the law of that province governs its contracts. It seems further possible to raise a similar question with regard to the extension of business by such a company into two provinces, if both of such provinces grant licenses. It might then be suggested that the law of each respective province governs the company's contracts in each.

The Dominion Act, however, forbids any British or foreign company to do business in Canada at all without a Dominion license, and seems to assume, therefore, that in both of the cases supposed the provincial license would be ineffectual. No attempt, however, at a judicial determination of this question has, so far as the Commission is aware, been made, although it was in evidence that such companies have been doing business, principally in the province of Quebec, without complying with the Dominion Act and without taking out any license.

Again, in regard to companies of provincial origin seeking to extend their business into other provinces, the Act, though such companies are declared exempt from its operation while they remain 'at home,' permits them to take out a Dominion license, and, under its protection, to do business throughout Canada.

It seems to follow that with regard to such a company, so extending, the penalties prescribed by the Act would be incurred by doing extended business without a Dominion license.

These considerations point to the expediency, in the public interest, of such a concurrence of legislative action by the Dominion and the provinces as will secure uniformity of contract throughout Canada in any view that may ultimately prevail as to where the legislative jurisdiction resides, in any case that may arise.

In the extreme view of provincial jurisdiction, the Dominion would be limited to legislation with regard to companies incorporated by it. In the extreme view of Dominion jurisdiction, the only limit would be with regard to companies of provincial origin confining their business to the province of origin. Between these extremes are many intermediate possibilities. In any case, therefore, if insurance contracts through-

out Canada are to be simplified and standardized effectively, concurrent legislation is desirable.

Counsel advising the Commission have conferred upon this subject with the counsel for the two provinces of Ontario and Quebec, who were appointed to represent policyholders of those respective provinces before the Commission. Your Commissioners sincerely hope that the conference may result in recommendations to the governments of those two provinces which will bring about the concurrent legislation which your Commissioners deem so desirable.

Other Topics.

The Commission was memorialized by the Life Managers' Association, majority and minority memorials being presented, by the Association of Life Underwriters and by the Policyholders' Association, the first representing the views of the company management, the second the views of the agents or field force. Many of the topics embraced in these memorials have already been dealt with.

It was probably to be expected that the views of these bodies should be more or less divergent in respect of many matters of importance, and your Commissioners have given careful consideration to every subject brought forward in all the memorials.

Gain and Loss Exhibit.

The general view of those representing company management is against requiring, among the matters embraced in the annual returns, the gain and loss exhibit which is so frequent a feature of the returns required in the United States, and which was exacted from the different companies during this inquiry for the purpose of illustrating and analysing the inordinate expense under which the companies carry on their business.

The management of the Canadian companies find fault with it, not because of any inherent demerit, but because it may perhaps deter the British companies from continuing their Canadian business. The management of the British companies, on the other hand, are of the view that, as the exhibit depends for any value it may have upon mortality gains, those gains should be shown in a more accurate way than is possible by any computation made within the audit of any particular year.

There is much force in this latter suggestion. It is manifest that the mortality in any particular year may be quite deceptive, and may not fairly represent any useful average.

Your Commissioners are of opinion that in view of the recommendation made for limiting the expense of first year insurance, viz.: its limitation to the loadings of the first year premiums with the addition of the mortality gains directly due to the new business of the year, it will not be necessary to require more of the details covered by the gain and loss exhibit than may be necessary to enable the Department to ascertain whether the expenditure has been kept within the limitation. All the other subjects embraced in the exhibit are, your Commissioners think, sufficiently disclosed in the returns as they will be amended.

Verification of Returns.

The Managers' Association has suggested that the annual return should be submitted to and its signing directed by the Board of Directors, that the insurance and annuity liabilities returned should be subscribed by a duly qualified actuary, and the portion of the return dealing with general questions of finance by auditors, one of whom should be a qualified member of a society of accountants.

Your Commissioners are of the opinion that this suggested requirement is one whose development in practice may well be left to the discretion of the companies

themselves. No certification by actuary or accountant could be permitted to lessen the liability of the Board of Directors in respect of the returns, and as the companies will find it to their advantage to introduce scientific accuracy into their returns, they may be expected to do so as speedily as their circumstances will permit. It must not be forgotten that the actuaries of the Department value the insurance liabilities conclusively, so far as the companies are concerned, at three cents per policy, and if a more frequent departmental valuation is required in accordance with the amendment proposed by the Commission, there does not seem to be any real reason to apprehend a state of undiscovered insolvency.

Amalgamation and Transfer.

It is suggested that there should be some simple method prescribed for the amalgamation of companies or the transfer of business from one company to another. This suggestion is proper, and the proposed amendments cover provisions in that regard which will, it is believed, facilitate honest and fair transactions of the kind, while making impossible such abuses as were discovered in the course of the inquiry into the affairs of the Home Life Association and the Union Life Assurance Company.

British and Foreign Companies and Trustees for.

The classification of companies whose corporate powers are derived outside Canada should be amended so as to divide the present class 'foreign' into the classes 'British' and 'foreign.'

The trustees who may hold their Canadian assets should include Canadian trust companies, and trustees other than Canadian trust companies should be required to give adequate security for the proper performance of the trust.

The provision enabling such trustees to deal with the assets should secure a fair margin against fluctuation. The valuation, your Commissioners recommend, should never exceed 90 per cent of the market value nor should it in any case exceed the par value of the security.

Assets held for Canadian Policyholders in British and Foreign Companies.

The Underwriters' Association asks that British and foreign companies, when making the statutory deposit and vesting assets in trustees for the security of Canadian policyholders, should be required to put up Canadian securities. The statute now permits, in respect of the deposit, securities of the Dominion and the provinces, besides securities of the United Kingsdom in the case of British companies and securities of the United States in the case of United States companies. The maintenance of their deposits in these high class securities, which bear low rates of interest, does not operate as a descrimination in favour of British and foreign companies. But it has been pointed out that there is no express requirement with regard to the nature or class of the securities which may be vested in trustees, and the Commission has ascertained that the absence of any such requirement has resulted in some cases in the assets so vested in trustees being entirely outside the range of permissible investments. Your Commissioners think this should be remedied by amending the section in question accordingly.

But the further question remains, whether the assets vested in trustees should be required to consist of Canadian securities. These assets are required to be maintained in Canada for the benefit of policy-holders here, and your Commissioners see no reason why, if assets of a character different from those constituting the government deposit are chosen, they should not be such as may be realized upon in Canadian courts. Your Commissioners accordingly recommend an amendment requiring these trust assets to be of the same class as the deposit or of the class of permissible Canadian investments.

Incorporation of Managers and Agents.

Both the Managers' Association and the Underwriters' Association desire incorporation. Your Commissioners are of the opinion that this subject is not within the scope of the Commission.

Provincial and Municipal Taxation.

The Life Managers' Association has asked that some measure of relief should be suggested in respect of provincial license fees and provincial and municipal taxation. These subjects are entirely within the legislative control of the different provinces, and your Commissioners cannot, therefore, make any effective suggestion in regard to them.

Form of Returns.

The minority memorial from the Life Managers' Association strongly urges the adoption of the forms of return to the Board of Trade prescribed in the British Act of 1870, or some modification of them based upon their principle.

The basis distinction between these forms and those now in use in Canada is two-fold. The Canadian forms take into the account of income and expenditure only moneys actually received and paid out, while the Board of Trade returns proceed upon the principle of a revenue account, taking into consideration not only moneys received and paid, but moneys earned and due. The balance sheet of the Board of Trade Returns also, necessarily differs from the Canadian Statement of Assets and Liabilities by the operation of the same difference in principle.

There is, your Commissioners are convinced, no serious difficulty in deducing from the Canadian Returns all the information which it is desirable the returns should convey for the purposes of facilitating the departmental examination of the company's affairs which our Act prescribes, but which is not called for by the British Act. The fundamental difference between returns followed by departmental verification and returns unverified lies at the root of the distinction which has always been made in the two systems.

Your Commissioners believe that with the additional features in the returns recommended under a former head, and with the elastic provision for requiring modifications in their form and contents, also recommended, no real difficulty need ever arise.

Promissory Notes given for Premiums.

The Policyholders' Association in its memorial suggests that the acceptance of promissory notes for premiums is detrimental to the best interests of the business.

In this view your Commissioners agree. It is unfair to those who pay their premiums in cash, unfair to the companies and conducive to non-persistent and therefore unprofitable business that persons who do not pay for their insurance but merely come under an obligation to pay, which is of doubtful value, should be placed upon the footing of payment. It savours of the rejected rebate and should be prohibited.

Government approval of Premium Rates.

The same association desires approval of premium rates by the Superintendent of Insurance. In this your Commissioners do not concur. A healthy competition, with the opportunity of a free comparison of the rates charged and the results attained will secure the insuring public against undue rates. This free comparison for this purpose, was in the minds of your Commissioners when making their recommendations upon the subjects, distribution of surplus and returns and publicity.

Deposit of Securities with Superintendent.

Nor do your Commissioners agree with the suggestion that all securities should be deposited with the superintendent. This would be inconvenient in a high degree and could serve no useful purpose.

Making all Business participating.

The suggestion by the Underwriters' Association that all business written should participate in profits does not recommend itself to the Commission. Insurance to a fixed amount and at low rates is the simple and normal form. It will always be sought for by those who desire only to make provision for their families, and are indifferent to the more or less speculative forms in which insurance is offered.

Nor does the Commission see any necessity for compelling companies to confine themselves to either participating business or non-participating business. In much of the recent legislation in the United States this election has been made compulsory. But your Commissioners are of opinion that every useful purpose will be fully served by requiring companies which do both classes of business to keep each in a distinct and separate branch.

Restricting Shareholders' Dividends.

The suggestion that the dividends of shareholders should be restricted by legislation is not approved. The stimulus to competition which publicity and comparison may be expected to afford will prevent undue and disproportionate stock dividends.

Summary Determination of Rights.

The Policyholders' Association asks that the liability upon an insurance policy should be summarily determined by the superintendent. To this your Commissioners see many grave objections. But it is confidently expected that the simplification and standardizing of insurance contracts which this report recommends, will accomplish all that is necessary to prevent any improper resort to litigation.

Conclusion.

The draft Bill and schedules accompanying the report consist of the Insurance Act as embodied in the recent revision of the Statutes, cap. 34, and the schedules to it, with such alterations in and additions to both as serve to embody the recommendations of the Commission.

All which is respectfully submitted.

D. B. MacTAVISH,
J. W. LANGMUIR,
A. L. KENT.

Dated at Ottawa, this 22nd day of February, 1907.